



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2002 AND 2001

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF FRESNO)
FRESNO, CALIFORNIA

City of Fresno

Fire and Police Retirement System

(A COMPONENT UNIT OF THE CITY OF FRESNO)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the years ended june 30, 2002 and 2001



CITY OF FRESNO RETIREMENT SYSTEMS
2600 FRESNO STREET, SUITE 2162
FRESNO, CALIFORNIA 93721

STANLEY L. MCDIVITT,
RETIREMENT ADMINISTRATOR



TABLE OF CONTENTS

I. INTRODUCTORY SECTION

Mission Statement	
Certificates of Achievement for Excellence in Financial Reporting	
Letter of Transmittal	iv
City of Fresno Fire and Police Retirement System Board Members	viii
City of Fresno Retirement Office Staff	ix
Organization of Fire and Police Retirement System	x
Organizational Structure	xi
Professional Services	xii
Portfolio Managers	xiii

II. FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	3
General Purpose Financial Statements	
Statement of Plan Net Assets Available for Benefits	10
Statement of Changes in Plan Net Assets Available for Benefits	11
Notes to Financial Statements	
Description of the System	12
Summary of Significant Accounting Policies	13
Contributions	14
Prepaid Employer Contributions	17
Net Assets Available for Benefits	17
Deposits and Investments	19
Derivatives	22
Securities Lending	23
Contingencies	25
Administrative Expenses	25
Post Retirement Supplemental Benefit Program (PRSB)	25
Required Supplemental Schedules	
Schedule of Funding Progress	26
Schedule of Employer Contributions	26
Notes to the Required Supplemental Schedules	27
Supporting Schedules	
Schedule of Administrative Expenses	28
Schedule of Investment Management Fees and Other Expenses	29
Schedule of Payments to Consultants	29



TABLE OF CONTENTS

III. INVESTMENT SECTION

Investment Consultant's Report on Investment Activity	31
Summary of Investment Objectives and Policies Statement	36
Investment Results	37
Graphs: Target Asset Allocation	
Actual Asset Allocation	38
List of Largest Assets Held	39
Schedule of Commissions	40
Investment Summary	40
Graph: Total Fund/Median Fund	41

IV. ACTUARIAL SECTION

Actuarial Certification Letter	43
Summary of Actuarial Assumptions and Methods	45
Schedule of Active Member Valuation Data.....	49
Schedule of Retirees and Beneficiaries Added to or Removed from Rolls	49
Solvency Test	50
Actuarial Analysis of Financial Experience.....	50
Major Provisions of the Retirement Plan	51
Graph: History of Employer Net Contribution Rates	54

V. STATISTICAL SECTION

Revenue by Source and Expenses By Type (Ten Year Historical Trend Information)	55
Graphs: Revenues by Source (in thousands) and Expenses by Type (in thousands)	57

Membership Information

Schedule of Average Benefit Payments	58
Schedule of Retired Members by Type of Benefit	59
Schedule of Benefit Expenses by Type	59
Membership History (Active and Deferred)	60
Schedule of Retired Members by Type of Benefit	60
Summary of Active Participants and Retired Membership.....	61
Contribution Rates (Member and City)	62
Economic Assumptions and Funding Method	63
Graphs: Benefits and Withdrawals Paid (in thousands) and Average Monthly Benefits to Participants	64
Graphs: Expectation of Life (Disabled Retirees) and Expectation of Life (Age and Service Retirees).....	65

VI. COMPLIANCE SECTION

Independent Auditor's Internal Control Letter	67
---	----



2002 COMPREHENSIVE ANNUAL FINANCIAL REPORT

MISSION STATEMENT

The **Fire and Police Retirement System** (the “System”) was established on July 1, 1955 and is maintained and governed by Articles 17 and 17A of Chapter 2 of the City of Fresno Municipal Code. The System provides benefits to the safety employees and retirees of the City of Fresno.

The System’s primary responsibilities include: Administration of the trust fund, delivery of retirement, disability and death benefits to eligible members, administration of programs, and general assistance in retirement and related benefits.

Mission Statement

To provide System members and the employer with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

Board and Staff Commitment

To carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly and with courtesy and respect. Investments will be managed to balance the need for security with superior performance. We expect excellence in all activities. We will also be accountable and act in accordance with the law.

Goals

- ✧ To create an environment in which Board Members can maximize their performance as trustees.
- ✧ To improve the level of benefits and delivery of services provided to members and employees.
- ✧ To improve communications with members and the employer.
- ✧ To attract, develop and retain competent and professional staff.
- ✧ To achieve and maintain top quartile investment performance as measured by the Public Fund Universe.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fresno Fire and
Police Retirement System,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.



William R. Harte
President

Jeffrey L. Eason
Executive Director

Certificate of Recognition

Presented to

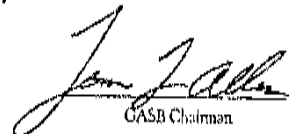
*City of Fresno Fire and Police
Retirement System, California*

For

Early Implementation of GASB 34

The implementation of Statement 34 results in better financial information to a government's taxpayers, governing board, and other financial statement users. Early implementation of Statement 34 is a testament to your professional leadership, initiative, and commitment to improving public accountability.

Fiscal Year Ended 6/30/01


GASB Chairman



CITY OF FRESNO
FIRE & POLICE BOARD

BRIAN BURRY, CHAIR
DARRELL FIFIELD, VICE CHAIR
PAUL CLIBY
CARLA LOMBARDI
STEPHEN GUINN

RETIREMENT
ADMINISTRATOR
STANLEY L. MCDIVITT

March 25, 2003

Retirement Board Members
City of Fresno Fire and Police Retirement System
2600 Fresno Street, Suite 2170
Fresno, California 93721

Dear Board Members:

As Retirement Administrator of the Fire and Police Retirement System, it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2002 and 2001.

The Board successfully managed the investment portfolio through last year's continued contraction in the stock market. Like all institutional investors, the System's returns were down in fiscal year 2002, however, seven year annualized returns still averaged 9.7 percent. The Fire and Police Retirement System is a strong and energetic organization, well positioned to serve our members. The Board continues to demonstrate its commitment to our membership, ensuring that participants' future retirements are realized through the protection and efficient administration of the System.

The Comprehensive Annual Financial Report

The Comprehensive Annual Financial Report ("CAFR") of the City of Fresno Fire and Police Retirement System for the years ended June 30, 2002 and 2001, is submitted herewith. Information contained in this report is designed to provide a complete and accurate review of the year's operations. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. For a general overview of the City of Fresno Fire and Police System's finances, please refer to Management's Discussion and Analysis letter in the Financial Section of this report.

The CAFR consists of six sections:

The **Introductory Section** contains our Mission Statement, the Government Financial Officers Association's Certificate of Achievement for Excellence in Financial Reporting, Letter of Transmittal, a description of the System's management and organizational structure, and a listing of the professional services providers.

The **Financial Section** contains the opinion of the independent auditor, Brown Armstrong Accountancy Corporation, the Management's Discussion and Analysis letter and the general purpose financial statements of the System.

The **Investment Section** includes a letter from the System's Investment Consultant, Dorn, Helliesen & Cottle, recapping the fiscal year investment results and activities, along with performance and asset allocation information.

SYSTEM ADMINISTRATOR'S LETTER OF TRANSMITTAL

The **Actuarial Section** includes the certification letter produced by the independent actuary, William M. Mercer, Inc., along with supporting schedules and information.

The **Statistical Section** contains significant detailed data pertaining to the System.

The **Compliance Section** contains the Independent Auditor's Report on Compliance and Internal Control over Financial Reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.

I trust that you and the members of the System will find this CAFR helpful in understanding the System, and our commitment to financial integrity and member services.

The Fire and Police Retirement System and its Services

The Fire and Police Retirement System was established on July 1, 1955, under charter Section 910 and is governed by Article 17 and 17A of Chapter 2 of the City of Fresno Municipal Code. Effective August 27, 1990, the City added a Second Tier that includes all full-time sworn Fire, Police, and Airport Safety personnel hired on or after that date.

The System provides retirement allowances to all full-time sworn safety members employed by the City of Fresno. The System provides lifetime retirement, disability, and death benefits to its safety members. The Retirement Board is also responsible for the prudent investment of member and employer contributions, and defraying reasonable expenses of administration.

The Fire and Police Retirement System Board is responsible for establishing policies governing the administration of the retirement plan, making benefit determinations, and managing the investment of the System's assets. The Board operates under the authority vested in Article 17 and 17A of Chapter 2 of the Fresno Municipal Code and the California Pension Protection Act of 1992. Article XVI, Section 17(b) of the Constitution of the State of California provides that the *"members of the Retirement Board of a public retirement system shall discharge their duties...solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."* Section 17(a) further provides that the Board has...*"the sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."*

The Retirement Board has five (5) members, two (2) management employees who are appointed by the Mayor and confirmed by the City Council, one (1) employee who is elected by the members representing the sworn Fire Department of the System, and one (1) employee who is elected by the members representing the Police and Airport Safety Officers of the System, both of which serve a four-year term. The fifth and final member of the Board shall be a qualified elector of the City, not connected with its government, elected by the previously designated four members.

The Board oversees the Retirement Administrator and staff in the performance of their duties in accordance with the Municipal Code and the Board's Rules, Regulations and Policies.

Service Efforts and Accomplishments

In fiscal year 2002, with the support of City management, the Board implemented a reciprocity program with the California Public Employees Retirement System ("CALPERS").

During the fiscal year, the Board also performed several portfolio manager searches. The searches resulted in the hiring of Pyrford as an international equity manager and the indexing of two other portfolios with Barclays Global Investors. The Investment Committee also updated the Board's Investment Objectives and Policy Statement and the Board's Asset Allocation Plan.

SYSTEM ADMINISTRATOR'S LETTER OF TRANSMITTAL

The Board recently completed a request for proposal process to retain an independent auditor to audit the financial records and adopted a new Code of Ethics for Board Members and Staff.

Professional Services

Professional Consultants and Investment Managers are retained by the Board to provide professional services essential to the effective and efficient operation of the System.

An opinion from the certified public accountant and the actuary are included in this report along with a summary investment report from the Board's Investment Consultant. The Consultants and Investment Managers retained by the Board are listed in the following section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Fire and Police Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2001. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Actuarial Funding Status

The System's funding objective is to meet long-term benefit promises by retaining a well-funded plan status and obtaining superior investment returns while minimizing employer contributions. The Boards' objective for employer contributions is to establish a rate as a level percent of member payroll. The greater the level of overall plan funding, the larger the ratio of assets accumulated compared to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers.

As of June 30, 2001, the funded ratio of the Fire and Police Retirement System was 152.8 percent. The funded ratio was determined by using the actuarial value of the assets in accordance with Governmental Accounting Standards Board Statement 25. The actuarial accrued liability of the System at June 30, 2001 amounted to \$562,131,000. The actuarial value of assets at June 30, 2001 amounted to \$859,123,000. The market value of the assets at June 30, 2001 amounted to \$872,389,449.

The Board engages an independent actuarial consulting firm, William M. Mercer, Incorporated, to conduct annual actuarial valuations of the System. Recommendations are presented to the Board for consideration.

Accounting System and Reports

The management of the System is responsible for establishing and maintaining an internal control structure designed to ensure that the System assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of the information, and all disclosures, rests with the management of the System. The accounting firm of Brown Armstrong Accountancy Corporation provides financial audit services. The financial audit ensures that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement.

SYSTEM ADMINISTRATOR'S LETTER OF TRANSMITTAL

This report has been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB") and its predecessor, the National Council on Governmental Accounting. The financial statements are presented in accordance with guidelines established by GASB No. 25, Financial Reporting for Defined Benefit Plans and incorporates the provisions of GASB No. 34.

The System's transactions are reported on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when the payment is made.

Investments

Article XVI, Section 17(c) of the Constitution of the State of California, provides that *"the members of the Retirement Board of a public pension or retirement system shall discharge their duties... with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aim."* By permitting further diversification of investments within a fund, the prudent expert standard may enable a fund to reduce overall risk and increase returns. A summary of the asset allocation can be found in the investment section of this report.

The prudent expert rule permits the Board to establish an investment policy based upon professional advice and counsel and allows for delegation of investment authority to professional investment advisors. The Investment Objectives and Policy Statement of the Board outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the policy in accordance with the Board policy and guidelines.

For the fiscal year ended June 30, 2002 and June 30, 2001, the System's investments provided a - 5.8 percent and -4.1 percent rate of return, respectively. The System's annualized rate of return over the last three years was .2 percent; for the past five years the annualized return was 6.4 percent and for the past seven years, the annualized return was a strong 9.7percent.

Acknowledgments

The compilation of this report reflects the combined effort of the System's staff under the leadership of the Board. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the System.

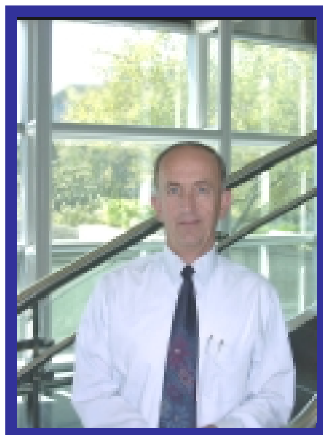
On behalf of the Board, I would like to express my appreciation for the dedication and efforts of my staff members, Kathleen Riley, Carol Eland, Karen Rolle, Pattie Laygo, Donna Gaab, Andrea Ketch, and Patricia Basquez; and to the Board's consultants, for their assistance in the preparation of this report and for their ongoing commitment to serve the Board and the members of the System. I also would like to thank the Board members for their support in accomplishing the many tasks and goals over the past year.

Respectfully Submitted,

Stanley L. McDivitt
Retirement Administrator



Brian Burry, Chairman
Elected Police Member
4-year term

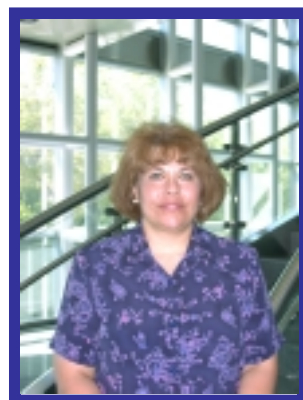


Darrell Fifield
Member
Mayor Appointed



Stephen Guinn
Member
Board Appointed

**CITY OF FRESNO
BOARD MEMBERS
FIRE & POLICE
RETIREMENT SYSTEM**



Carla Lombardi
Member
Mayor Appointed



Paul Cliby
Elected Fire Member
4-year term



CITY OF FRESNO RETIREMENT OFFICE STAFF



Karen Rolle, Accountant-Auditor; Stanley McDivitt, Retirement Administrator,
Pattie Laygo, Executive Secretary

Andrea Ketch, Benefits Counselor; Donna Gaab, Benefits Counselor;
Patricia Basquez, Benefits Counselor

BACK ROW

Kathleen Riley, Assistant Retirement Administrator; Carol Eland, Benefits
Manager



ORGANIZATION OF FIRE AND POLICE RETIREMENT SYSTEM

ADMINISTRATION: The Administrative Section is responsible for the administration of the City of Fresno Fire and Police Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See page xii for outside consultants and page xiii for investment managers and page 40 for a schedule of brokerage commissions.)

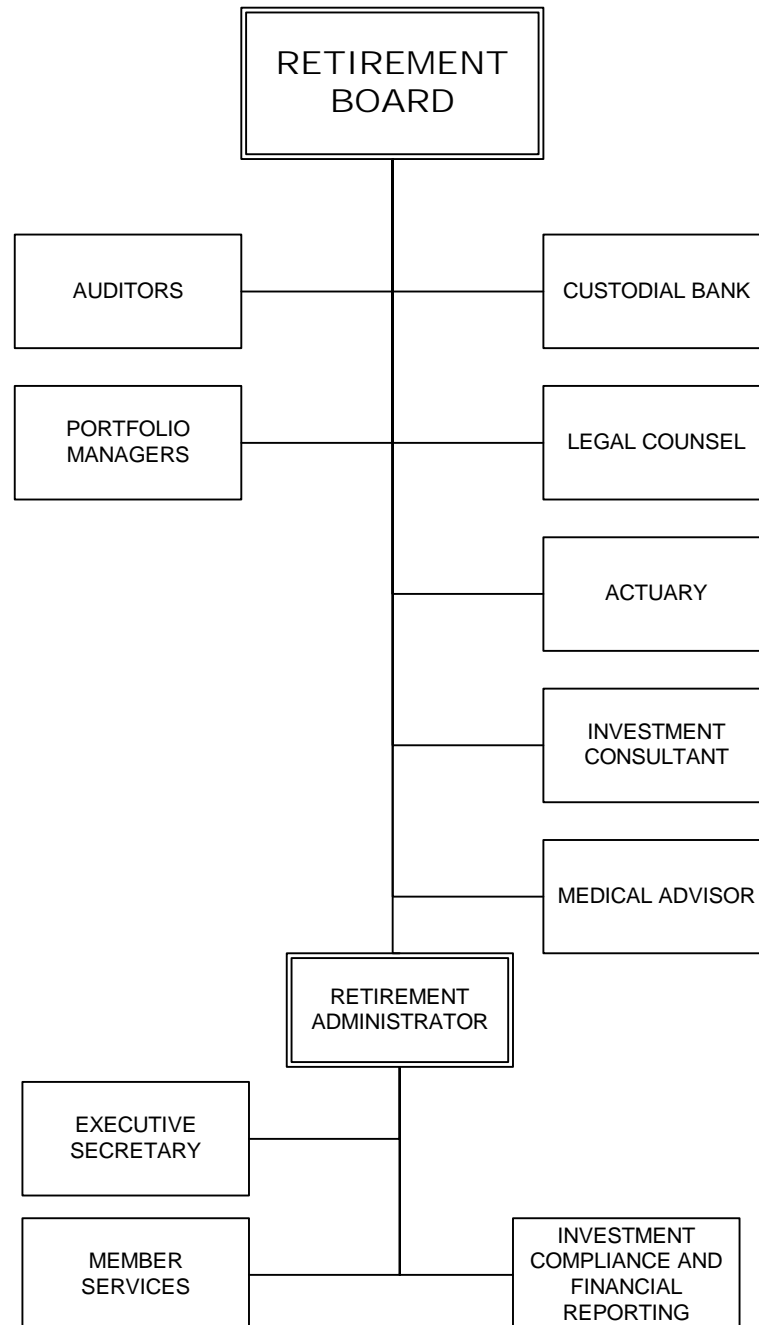
MEMBER SERVICES: This section is responsible for providing all benefit services to the members for the System. This includes benefit calculations, investigation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, membership counseling, and membership training.

INVESTMENT COMPLIANCE AND FINANCIAL REPORTING: This section is responsible for monitoring compliance with the Board's Investment Policy and Objectives and for all of the financial records and reports including financial statements, control and balancing of payroll and members' contributions and reconciliation of investments.

EXECUTIVE SECRETARY: The position is responsible for providing administrative and clerical support services for the Board and the retirement staff.



FIRE AND POLICE RETIREMENT SYSTEM ADMINISTRATIVE ORGANIZATION STRUCTURE





PROFESSIONAL SERVICES

Custodial Bank

STATE STREET BANK
Alameda, California

LEGAL ADVISOR

SALTZMAN AND JOHNSON LAW CORPORATION
San Francisco, California

INVESTMENT CONSULTANT

MILLIMAN USA (formerly Dorn, Hellisen & Cottle)
San Francisco, California

ACTUARY

MERCER HUMAN RESOURCES CONSULTING (formerly William M. Mercer Inc.)
San Francisco, California

MEDICAL ADVISOR

BENCHMARK MEDICAL CONSULTANTS
Sacramento, California



PORTFOLIO MANAGERS

ALLIANCE CAPITAL MANAGEMENT CORP

NEW YORK, NY
LARGE CAPITAL – DOMESTIC

BARCLAYS GLOBAL INVESTORS

NEW YORK, NY
LARGE CAPITAL – DOMESTIC

CAPITAL GUARDIAN TRUST CO.

LOS ANGELES, CA
DOMESTIC FIXED INCOME

CREDIT SUISSE ASSET MANAGEMENT

NEW YORK, NY
ENHANCED DOMESTIC FIXED INCOME

DEUTSCHE ASSET MANAGEMENT INVESTMENT SERVICES LTD.

PHILADELPHIA, PA
DOMESTIC FIXED INCOME

DUNCAN HURST CAPITAL MANAGEMENT

SAN DIEGO, CALIFORNIA
SMALL CAP – DOMESTIC EQUITY

GENESIS INVESTMENT MANAGEMENT LTD.

LONDON, UNITED KINGDOM
EMERGING MARKET EQUITY

INVESCO GLOBAL ASSET MANAGEMENT

ATLANTA, GEORGIA
INTERNATIONAL EQUITY
NEW YORK, NY
ENHANCED INDEX DOMESTIC EQUITY INDEX

JP MORGAN FLEMING ASSET MGT

NEW YORK, NY
RESEARCH ENHANCED INDEX
ACTIVE FIXED INCOME
OPEN-ENDED REAL ESTATE FUND
LONG DURATION FIXED INCOME

JOHN MCSTAY INVESTMENT COUNSEL

DALLAS, TEXAS
SMALL CAP–DOMESTIC EQUITY

PYRFORD INTERNATIONAL

LONDON, ENGLAND
INTERNATIONAL EQUITY



2002 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL



Independent Auditor's Report



BROWN ARMSTRONG
CERTIFIED
PUBLIC
ACCOUNTANTS

**BROWN ARMSTRONG
PAULDEN MCCOWN HILL STARBUCK & KEETER**
CERTIFIED PUBLIC ACCOUNTANTS

Main Office
4300 Irwin Ave., Suite 300
Bakersfield, California 93309
Tel 661-834-4971 Fax 661-834-4973
e-mail: baa info@brownarmstrong.com

Shafter Office
560 Central Avenue
Shafter, California 93283
Tel 661-746-1745 Fax 661-746-1718

Peter C. Brown, CPA
Barbara H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Harvey J. McCown, CPA
Andrea R. Hill, CPA
Steven R. Starbuck, CPA
Allan K. Keeter, CFS

Chris M. Thornburgh, CPA
Leta B. Krasse, CPA, MST
Joan M. Anderson, CPA
Bradley M. Hawkins, CPA
Eric R. Xin, CPA
Melinda A. McDermis, CPA
Thomas M. Young, CPA
Amanda E. Wilson, CPA
Sharon Jones, CPA, MST
Michelle L. Gonzales, CPA
Rebecca Thomas, CPA
Wendy Year-Searcy, CPA
Rochelle Jones, CPA
Bryan J. Lewis, CPA
Debbie A. Rapp, CPA
Julie A. Avril, CPA

INDEPENDENT AUDITOR'S REPORT

To The Board of Retirement
City of Fresno Fire and Police Retirement System
Fresno, California

We have audited the accompanying Statement of Plan Net Assets Available for Benefits of the City of Fresno Fire and Police Retirement System as of June 30, 2002 and 2001, and the related Statement of Changes in Plan Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the management of the City of Fresno Fire and Police Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Fresno Fire and Police Retirement System, as of June 30, 2002 and 2001, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified as management's discussion and analysis in the financial section of the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules and the supporting schedules listed in the financial section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

MEMBER of THE Practice Section of the American Institute of Certified Public Accountants

***Independent Auditor's Report***

The information included in the Investment, Actuarial, and Statistical Sections listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on these sections.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2002, on our consideration of the City of Fresno Fire and Police Retirement System internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN HILL STARBUCK & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink, appearing to read "Audrey J. Paulden", written over a horizontal line.

Bakersfield, California
August 30, 2002



MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the City of Fresno Fire and Police Retirement System for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal beginning on page iv of this report.

Financial Highlights

- ◆ At the close of the fiscal year 2002, the assets of the System exceed its liabilities by \$789,226,142. The net assets of the System are held in trust for payment of pension benefits to participants and their beneficiaries and all of the net assets are available to meet the System's ongoing obligations.
- ◆ The System's total net assets held in trust for pension benefits decreased by \$83,163,307, or 9.5 percent, primarily as result of declines in the investment markets.
- ◆ The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the date of the last actuarial valuation, the funded ratio for the System was 152.8 percent. In general, this indicates that for every dollar of benefits due we had approximately \$1.53 of assets available for payment as of that date.
- ◆ Revenues (additions (decreases) to Plan Net Assets) for the fiscal year were (\$51,328,667), which includes member contributions of \$3,848,204 and an investment loss of \$55,176,871.
- ◆ Expenses (Deductions in Plan Net Assets) increased from \$29,392,928 to \$31,834,640 over the prior year, or approximately 8.3 percent. Most of the increase was due to an increase in benefits paid over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENT

The following discussion and analysis are intended to serve as an introduction to the System's financial statements, which are comprised of these components:

1. Statement of Plan Net Assets Available for Benefits
2. Statement of Changes in Plan Net Assets Available for Benefits
3. Notes to the Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The **Statement of Plan Net Assets Available for Benefits** is a point in time or a snapshot of account balances as of the fiscal year end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The **Statement of Changes in Plan Net Assets Available for Benefits**, on the other hand, provides a view of current year additions and deductions to the System. Both statements are in compliance with Governmental Accounting Standard Board (GASB) Pronouncements. These pronouncements require certain disclosures and require State and Local governments to move to the full accrual method of accounting. The System complies with all material requirements of these pronouncements.

The System's funding ratio at June 30, 2001 was 152.8 percent, which means the System's fund has approximately \$1.53 available for each \$1.00 of liability. The Statement of Plan Net Assets Available for Benefits and the Statement of Changes in Plan Net Assets Available for Benefits report information about the System's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments.

These two statements report the System's net assets held in trust for pension benefits (net assets), which is the difference between assets and liabilities. This is generally considered to be a good way to measure the System's financial position. Over time, increases and decreases in System's net assets is one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring the System's overall health.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's progress in funding its obligations to provide pension benefits to members.

The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position. The assets of the System exceeded its liabilities at the close of the fiscal year 2002 by \$789,226,142. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

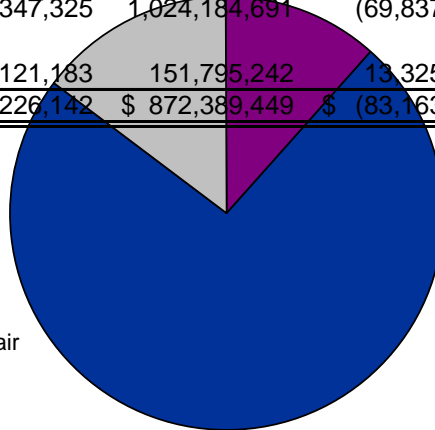
The fund's combined net assets held in trust for pension benefits increased consistently from fiscal year 1995 to 2000, but has incurred losses over the past two fiscal years. The System averaged an annualized investment return of 9.7 percent over the past seven fiscal years and has exceeded the actuarial assumption of 8 ¼ percent. In fiscal year 2002, net assets decreased by, 9.53 percent due to a significant correction in investment markets.

Despite variations in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and successful investment and risk management program.

**Fire and Police Retirement System Net Asset (Table 1)
For the Year Ended June 30, 2002 and 2001**

	2002	2001	Increase/ (Decrease)	Pct. Increase/ (Decrease)
Current and Other Assets	\$ 129,716,632	\$ 127,448,748	\$ 2,267,884	0.72
Investment at Fair Value	824,630,693	896,735,943	(72,105,250)	(8.04)
Total Assets	954,347,325	1,024,184,691	(69,837,366)	(6.95)
Less: Current Liabilities	165,121,183	151,795,242	13,325,941	7.89
Net Assets	\$ 789,226,142	\$ 872,389,449	\$ (83,163,307)	(9.53)

Investment at Fair
Value
73%





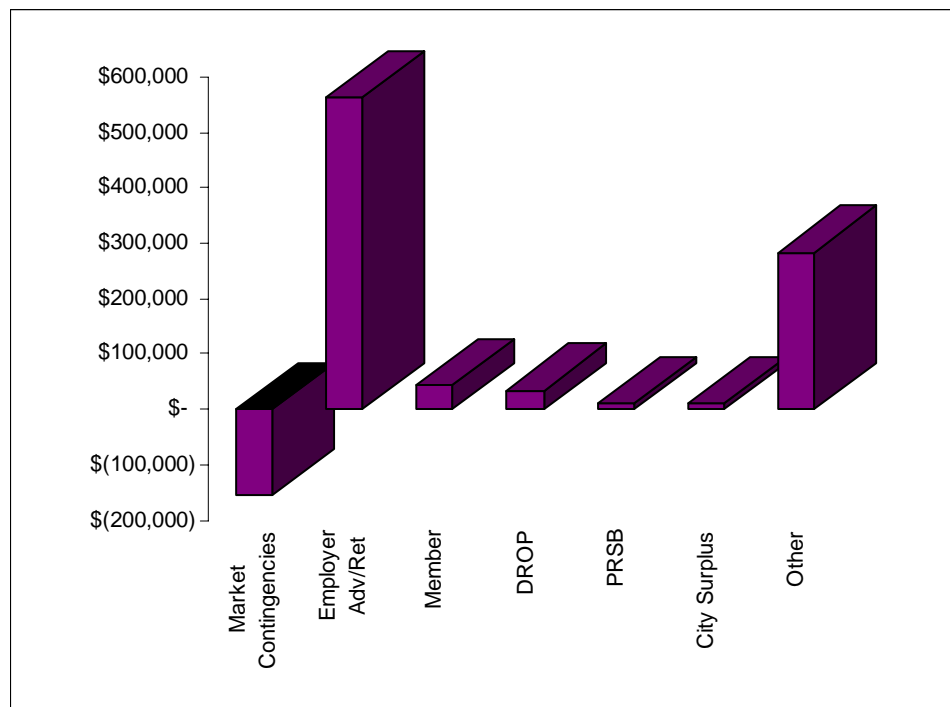
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Reserves

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. The System previously implemented GASB 25, which impacted the reserve accounts, and the amount of interest credited to reserve accounts. Under GASB 25, investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are held in a reserve account called the Market Stabilization Reserve.

**Fire & Police System's Reserves (Table 2)
For the Year Ended June 30, 2002 and 2001
(in Thousands)**

	<u>2002</u>	<u>2001</u>
Member Reserves	\$ 42,563	\$ 41,691
Employer Advance/Retired Reserves	563,902	533,271
Market Contingencies Reserves	(154,572)	(73,573)
DROP Reserves	33,671	23,889
PRSB Reserves	10,123	9,814
City Surplus Reserves	11,080	8,461
Other Reserves	282,459	328,837
	<hr/>	<hr/>
Net Assets Available for Benefits	\$ 789,226	\$ 872,390





MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

Because the Retirement System leases office space and furniture from the City of Fresno and uses the City's computer services and Intranet, the System does not currently have any significant capital assets.

System's Activities

A stock market continued contraction decreased net assets of the System by \$83,163,307, thereby accounting for a 9.5 percent decrease in the fiscal year ended. Key elements of this decrease are described in the sections that follow.

Revenues - Additions to System's Net Assets

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Revenues for the fiscal year ended June 30, 2002, totaled (\$51,328,667).

For the fiscal year ended, overall revenues had decreased by \$5,532,167, or 12.1 percent from the prior year, primarily due to a decline in the investment markets. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2002.

	2002	2001	Increase/ (Decrease)	Pct. Increase/ (Decrease)
Employee Contributions	\$ 3,848,204	\$ 3,779,738	\$ 68,466	1.81
Net Investment Income(Loss)*	(55,176,871)	(49,576,238)	(5,600,633)	(11.30)
Total	\$ (51,328,667)	\$ (45,796,500)	\$ (5,532,167)	(12.08)

* Net of investment expenses of \$7,895,548 and \$12,764,795 for June 30, 2002 and 2001.

Expenses – Deductions from System's Net Assets

The System was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan, refund of contributions to terminated employees, and the cost of administering the system.



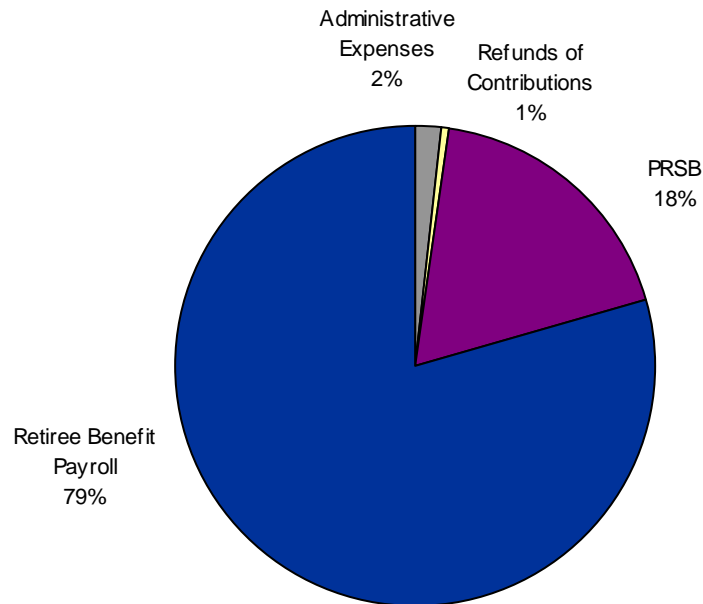
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Deductions for the fiscal year ended June 30, 2002, totaled \$31,834,640, which was an increase of 8.3 percent over the prior fiscal year. The increase in benefits paid resulted primarily from an increase in the number of new retirees receiving benefits, and an increase in the average benefit.

The System's increases in total expenses have closely paralleled inflation and the growth in the membership and services provided. The System has consistently met its Administrative Expense Budget. There are no material variances between planned expenditures and actual expenditures.

Expenses – Deductions in Plan Net Assets (Table 4) For the Year Ended June 30, 2002 and 2001

	FY2002	FY2001
Administrative Expenses	\$ 511,748	\$ 504,883
Refunds of Contributions	178,058	319,565
PRSB	5,813,466	5,330,384
Retiree Benefit Payroll	25,331,368	23,238,096
Total Expenses	<u>\$ 31,834,640</u>	<u>\$ 29,392,928</u>





MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

System's Fiduciary Responsibilities

The System's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution the assets must be used exclusively for the benefit of plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers, and creditors with a general overview of the City of Fresno Fire and Police Retirement System's finances and to show accountability for the funds it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be address to:

City of Fresno Fire and Police Retirement System
2600 Fresno Street, Suite 2162
Fresno, California 93721

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator



**FIRE AND POLICE RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Assets:		
Cash (Note 6)	\$ 336,123	\$ 100,964
Receivables		
Interest and Dividends	3,825,934	4,723,286
Receivables for Investments Sold	6,177,710	8,166,538
Other Receivables	3,315,535	929,375
Total Receivables	13,319,179	13,819,199
Investments at Fair Value (Note 6)		
(Cost of \$780,049,893 in 2002 and \$791,658,917 in 2001)		
Short Term Investments	35,267,797	45,270,781
Domestic Equity	325,997,961	390,377,479
Domestic Fixed Income	259,971,929	254,147,096
International Equity	71,046,306	75,699,931
Emerging Market Equity	18,788,265	18,226,614
Mortgages	48,132,018	46,482,410
Real Estate	65,426,417	66,531,632
Total Investments	824,630,693	896,735,943
Collateral Held for Securities Lent (Note 8)	116,061,330	113,528,585
Total Assets	954,347,325	1,024,184,691
Liabilities		
Collateral Held for Securities Lent (Note 8)	116,061,330	113,528,585
Prepaid Employer Contributions (Note 4)	18,564,246	17,149,419
Payable for Investments Purchased	23,887,253	18,608,922
Payable for Foreign Currency Purchased	3,315,535	653,884
Other Liabilities	3,292,819	1,854,432
Total Liabilities	165,121,183	151,795,242
Net Assets Held In Trust for Benefits (Note 5)	\$ 789,226,142	\$ 872,389,449

(A schedule of funding progress is presented on page 26.)

The notes to the financial statements on pages 12 to 25 are an integral part of this statement.



**FIRE AND POLICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED JUNE 30, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Additions:		
Contributions:		
System Members (Note 3)	\$ 3,848,204	\$ 3,779,738
Total Contributions	<u>3,848,204</u>	<u>3,779,738</u>
Investment Income (Loss):		
Net Appreciation (depreciation) in Value of Investments	(80,999,128)	(78,958,941)
Interest	20,029,467	23,439,413
Dividends	9,929,196	10,605,488
Securities Lending Earnings (Note 8)	2,631,616	7,622,719
Other Investment Related	1,127,526	479,878
Less Investment Expense	(7,895,548)	(12,764,795)
Net Investment Income (Loss)	<u>(55,176,871)</u>	<u>(49,576,238)</u>
Total Additions	<u>(51,328,667)</u>	<u>(45,796,500)</u>
Deductions:		
Benefit Payments	25,331,368	23,238,096
Post Retirement Supplemental Benefits (Note 11)	5,813,466	5,330,384
Refunds of Contributions	178,058	319,565
Administrative Expense	511,748	504,883
Total Deductions	<u>31,834,640</u>	<u>29,392,928</u>
Net Increase/(Decrease)	<u>(83,163,307)</u>	<u>(75,189,428)</u>
Net Assets Available for Benefits		
Beginning of Year	872,389,449	947,578,877
End of Year	<u><u>\$ 789,226,142</u></u>	<u><u>\$ 872,389,449</u></u>

The notes to the financial statements on page 12 to 25 are an integral part of this statement.



NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

1. DESCRIPTION OF THE SYSTEM

The City of Fresno Fire and Police Retirement System ("System") was established on July 1, 1955, under provisions of the City of Fresno Ordinance Number 4611, and is maintained and governed by Article 17 and 17A of Chapter 2 of the Municipal Code of the City of Fresno but not under the control of the City Council. The System is a single employer public employee retirement system that includes all full-time sworn fire, police and airport safety personnel. Effective August 27, 1990, the City added the Fire and Police Second Tier for all full-time sworn fire, police and airport safety personnel hired on or after that date (and closed the Fire and Police First Tier to new entrants). Total participants of the System were comprised of the following, as of June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Retirees and Beneficiaries of Deceased Retirees, Currently Receiving Benefits	686	663
Inactive Vested Members	25	24
Active Members:		
Vested	698	628
Non-vested	<u>248</u>	<u>306</u>
Totals	<u>1657</u>	<u>1621</u>

Pension benefits are based upon a combination of age, years of service, monthly salary and the option selected by the participant. Death and disability benefits are additionally based upon whether the disability was service connected and whether the death occurred before or after retirement. Members' contributions, including interest, are 100 percent vested at all times. Employer contributions do not become vested until completion of 10 years of credited service under the First Tier and five years of credited service under the Second Tier when they become 100 percent vested, but are not payable until the member attains the age of 50 under both tiers. Contributions are made by the members and the employer at rates recommended by the System's actuary and adopted by the Retirement Board.



NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

1. DESCRIPTION OF THE SYSTEM (CONTINUED)

System Description

Cost-of-living increases for the First Tier retirees are determined by the increases attached to ranks of active safety employees for those having retired under the rank-average option. For those retired under the 3-year average, cost-of-living is based on the percentage of change in the weighted mean average monthly compensation attached to all ranks of members, as compared with the prior fiscal year and limited to a maximum of 5 percent per year.

Cost-of-living (COL) increases for the Second Tier retirees will be determined by the change in Consumer Price Index with a maximum of 3 percent per year. Provisions for the COL increases are outlined in the City of Fresno Municipal Code and changes may be made only by code amendment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Retirement System, with its own governing board, is an independent governmental entity separate and distinct from the City of Fresno. The System's annual financial statements are included in the City of Fresno Annual Financial Report as a pension trust fund.

Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed which is the period due per Section 2-1717 and 2-1718 of the Municipal Code. Benefit payments and refunds are recognized as expenditures in the period in which they are disbursed as required by the Plan.

Securities lending transactions are accounted for in accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions which establishes reporting standards for securities lending transactions. In accordance with Statement No. 28, cash received as collateral on securities lending transactions and investments made with that cash are reported as assets and liabilities resulting from these transactions and are both reported in the Statement of Plan Net Assets. In addition, the costs of securities lending transactions are reported as an expense in the Statement of Changes in Plan Net Assets.



NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments

System investments are reported at fair value, calculated as cost plus unrealized gain or loss. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments in both bonds and mortgage backed pass-through certificates are carried at fair value.

Cost values, as shown, are derived from Master Custodial Transaction Records. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the System administrator to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

3. CONTRIBUTIONS

Authority to Collect

The responsibility for both City and employee contributions to the System is mandated by the City of Fresno Municipal Code Sections 2-1715, 2-1718, and 2-1715A.

Funding Policy

The City currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the entry age normal funding method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded liability. The City has agreed to deposit an estimated contribution amount with the Retirement System at the beginning of the fiscal year, discounted at the actuarially presumed interest rate. However, excess earnings in the system have funded the fiscal year 2002 City Contributions.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002 AND 2001

3. CONTRIBUTIONS (CONTINUED)

Any variance between contributions needed and contributions made is adjusted in the following fiscal year. These minimum contributions are recognized currently in the statement of changes in net assets available for benefits. Employees' contributions are funded and recognized currently through payroll deductions in amounts recommended by the actuary.

First Tier

Contributions aggregating \$935,931 (\$ 0 employer and \$935,931 employee) were made in fiscal year 2002, based on an actuarial valuation determined as of June 30, 2000, which became effective for the year ended June 30, 2002. Currently, the employer contribution rate is set at 25.52% however, no funds were required from the City due to the prefunded actuarial liability of the System. Employer and employee contributions represented 0 percent and 3.2 percent, respectively, of the fiscal year 2002 covered payroll.

Contributions aggregating \$1,046,579 (\$ 0 employer and \$1,046,579 employee) were made in fiscal year 2001, based on an actuarial valuation determined as of June 30, 1999, which became effective for the year ended June 30, 2001. The Employer contribution rate was set at 25.29%; however, no funds were required from the City due to the prefunded actuarial liability of the System. Employer and employee contributions represented 0 percent and 3.5 percent, respectively, of the fiscal year 2001 covered payroll.

Second Tier

Contributions aggregating \$2,912,273 (\$ 0 employer and \$2,912,273 employee) were made in fiscal year 2002, based on an actuarial valuation determined as of June 30, 2000, which became effective for the year ended June 30, 2002. The City contribution rate was set at 14.67% however, no funds were required from the prefunded actuarial liability of the System. Employer and employee contributions represented 0 percent and 9.04 percent, respectively, of the fiscal year 2002 covered payroll.

Contributions aggregating \$2,733,159 (\$ 0 employer and \$2,733,159 employee) were made in fiscal year 2001, based on an actuarial valuation determined as of June 30, 1999, which became effective for the year ended June 30, 2001. Currently, the City contribution rate is set at 14.57% however, no funds were required from the prefunded actuarial liability of the System. Employer and employee contributions represented 0 percent and 9.10 percent, respectively, of the fiscal year 2001 covered payroll.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002 AND 2001

3. CONTRIBUTIONS (CONTINUED)

Contributions Required and Contributions Made

Contributions are made by the members and the employer at rates recommended by the System's independent actuary and adopted by the Board. Employee contribution rates vary in the First Tier System according to entry age and are designed to provide funding for approximately one-third of the retirement benefits. Employee contribution rates in the Second Tier are established at 9 percent of pensionable base pay.

The City's contribution rates are designed to provide funding for the remaining regular retirement and cost-of-living benefits, as well as all disability and survivors' benefits.

The City's normal contributions to the Fire and Police System for 2002 were estimated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2001, as follows:

	Actuarial Rates as a Percentage of Pensionable Payroll	
	Effective FY 02	Effective FY 01
Employer Normal (First Tier)	25.44%	25.29%
Employer Normal (Second Tier System)	14.52%	14.57%

At June 30, 2001, the pension benefit obligation of the Fire & Police System was \$562,131,000. The actuarial value of the assets was \$859,123,000 for a funding ratio of 152.8 percent.

	2002		2001	
	Amount	Percent of Payroll	Amount	Percent of Payroll
Member Contributions				
First Tier	\$ 935,931	3.21%	\$ 1,046,579	3.50%
Second Tier	2,912,273	9.04%	2,733,159	9.10%
Total Member	<u>\$ 3,848,204</u>		<u>\$ 3,779,738</u>	
Employer Contributions				
First Tier	\$ 7,413,756	25.44%	\$ 7,553,967	25.29%
Second Tier	4,675,726	14.52%	4,373,721	14.57%
Total Employer	<u>\$ 12,089,482</u>		<u>\$ 11,927,688</u>	
Less Prefunded Actuarial Accrued Liability	<u>(12,089,482)</u>		<u>(11,927,688)</u>	
Total Employer	<u>\$ -</u>		<u>\$ -</u>	
Pensionable Payroll				
First Tier	\$ 29,142,123		\$ 29,869,381	
Second Tier	32,201,968		30,018,676	
	<u>\$ 61,344,091</u>		<u>\$ 59,888,057</u>	



NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

4. PREPAID EMPLOYER CONTRIBUTIONS

In July of 1994, the City of Fresno deposited prepaid normal contributions, which are classified as prepaid contributions to the Fire and Police Retirement System. The prepayment will earn interest rate of 8.25. The annual revenue recognition is credited to City contributions. Since City contributions for fiscal year 2002 were offset by prefunded actuarial accrued liability, the System recognized no earnings from the prepaid contribution and credited the City with interest at the actuarial rate.

Balance June 30, 2001	\$ 17,149,419
Interest Credited for Fiscal Year 2002	<u>1,414,827</u>
Balance at June 30, 2002	<u>\$ 18,564,246</u>

5. NET ASSETS AVAILABLE FOR BENEFITS

Net assets available for benefits are segregated into Active Members Reserve (members' accumulated contributions) and reserves established by the Board for various benefit payments.

Reserves are established by the System from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. Note: The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due. The System's major reserves are as follows:

ACTIVE MEMBER RESERVES represent the total accumulated member contributions. Additions include member contributions and investment earnings; deductions include refunds of member contributions and transfers to Employer Advance/Retired Reserves.

EMPLOYER ADVANCE/RETIRED RESERVES represent the total accumulated employer contributions for future retirement payments to current active members and the total accumulated transfers from Active Member Reserves, and investment earnings, less payments to retired members. Additions include contributions from the employer, transfers from Active Member Reserve, and investment earnings; deductions include payments to retired members.

DEFERRED RETIREMENT OPTION PROGRAM RESERVE ("DROP RESERVE") represents funds reserved for Deferred Retirement Option Benefits accumulated by members.

POST RETIREMENT SUPPLEMENTAL BENEFIT ("PRSB") RESERVE represents surplus earnings that have been allocated but not distributed to eligible participants in accordance with Municipal Code Section 2-1745 "Post-Retirement Supplemental Benefit."



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002 AND 2001

5. NET ASSETS AVAILABLE FOR BENEFITS (CONTINUED)

CITY SURPLUS RESERVE represents surplus earnings that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 2-1745 "Post-Retirement Supplemental Benefit."

MARKET STABILIZATION RESERVE represents unrealized gains or losses recognized in the financial statements as a result of reporting investments at fair value instead of cost.

OTHER RESERVE represents reserves accumulated for future earnings deficiencies and investment losses. The Other Reserve is funded entirely from investment earnings.

Interest is allocated at an actuarially determined interest rate as approved by the Board and is credited monthly to the Active Member Reserve and the Employer Advance/Retired Reserves. Active members in the Deferred Retirement Option Program accrue interest on their accumulated DROP accounts monthly at an interest rate annually adopted by the Board. Any remaining net investment earnings are allocated to Other Reserve.

The "other reserve account" is credited with all investment income and charged with investment and other expenses. Transfers from undistributed earnings to reserve accounts are made at an annual rate of 8.25 percent. Unrealized appreciation or depreciation of assets is recorded in a reserve for market fluctuation and reported in accordance with Government Accounting Standards Board Statement No. 25.

The amount of reserves for the year ended June 30, 2002 and 2001, consisted of the following (in thousands):

	2002	2001
Active Member Reserves	\$ 42,563	\$ 41,691
Employer Reserves	563,902	533,271
Reserve for Market Contingencies	(154,572)	(73,573)
Reserve for DROP	33,671	23,889
Reserve for PRSB	10,123	9,814
Reserve for City Surplus	11,080	8,461
Other Reserve	282,459	328,837
Net Assets Held in Trust for Benefits	\$ 789,226	\$ 872,390



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002 AND 2001

6. DEPOSITS AND INVESTMENTS

The System's investment guidelines reflect the duties imposed by an investment standard known as the "prudent expert rule." The prudent expert rule establishes a standard for all fiduciaries, which includes anyone who has discretionary authority with respect to the System's investments.

State Street Bank and Trust serves as custodian of the System's investments. The System's asset classes include U.S. Equity, International Equity, U.S. Fixed Income, International Fixed Income and Real Estate. Any class may be held in direct form, pooled form or both. The System has eleven external investment managers, managing fifteen individual portfolios.

Investments at June 30, 2002 and 2001 consist of the following (in thousands):

	<u>2002</u>	<u>2001</u>
Investments at Fair Value		
Short Term Investments	\$ 35,268	\$ 45,271
Domestic Equity	325,998	390,377
Domestic Fixed Income	259,972	254,147
International Equity	71,046	75,700
Emerging Market Equity	18,788	18,227
Mortgages	48,132	46,482
Real Estate	65,426	66,532
Total Investments at Fair Value	<u>\$ 824,630</u>	<u>\$ 896,736</u>

The Board has established a policy for investing, specifying the following maximum and minimum ranges for each of the asset classes:

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Cash	0	0	2
Domestic Fixed Income	20	23	26
Large / Mid Cap Equities	21	26	31
Real Estate	6	8	10
International Equities	11	13	15
Small Capital Equities	13	15	17
Emerging Market Equities	2	3	5
Long Duration Fixed Income	5	7	9
Alternative Investments	0	3	5
High Yield Bonds	0	2	4
		<u>100%</u>	



NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

6. DEPOSITS AND INVESTMENTS (CONTINUED)

Allowable securities must meet the reporting requirements of the Securities and Exchange Commission and must meet a “prudent expert” standard for investing. In no case may the System have 5 percent or more of System net assets invested in any one organization.

The Retirement Board's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the noncorrelated economic behavior of diverse asset classes. The result is a well-diversified portfolio. The investment portfolio as of June 30, 2002 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

Investment Risk

Investments are categorized by type to give an indication of the level of credit risk assumed at year end. Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name. Category 3 includes investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name. The System had no Category 2 and 3 investments at June 30, 2002 and 2001.

Deposit Risk

Bank balances of deposits are categorized by level of risk assumed. Category 1 deposits are those insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions trust department in the entity's name. Category 3 includes deposits that are uncollateralized. The carrying balance of deposits approximated the bank balances at June 30, 2002.

That portion of the System's cash held by the City is a part of the City's cash and investment pool. Accordingly, the System's investments are held in the name of the City and are not specifically identifiable. At June 30, 2002, cost approximated fair value of the System's share of pooled cash and investments.

Disclosure of the legal and contractual provisions of the City's investment policy and carrying amounts by type of investments categorized by credit risk may be found in the notes to the City's separately published Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002 AND 2001

6. DEPOSITS AND INVESTMENTS (CONTINUED)

The System's cash and investments are categorized below to provide an indication of the level of risk assumed by the System at June 30, 2002.

Investments	Fair Value
Category 1	
(Held by State Street Bank, System Custodian, in System's name):	
Domestic Equity	\$ 325,997,961
International Equity	89,834,571
Domestic Fixed Income	308,103,947
Total Category 1 Investments	\$ 723,936,479
Category 2 & 3	0
Total Categorized Investments	723,936,479
Uncategorized	
State Street Short-Term Investment Fund	35,267,797
Collective Investment Trust-Real Estate	65,426,417
Investments Held by Broker-Dealers Under Securities Loans (Note 8):	
Domestic Equity (loans with cash collateral)	23,079,569
International Equity (loans with cash collateral)	9,756,622
Domestic Fixed Income (loans with cash as collateral)	80,847,515
Domestic Fixed Income (loans with tri-party collateral)	2,377,624
Total Investment Held Under Securities Loans	116,061,330
Total Uncategorized Investments	216,755,544
Total Investments	940,692,023
Cash	
Category 1	
FDIC Insured Deposits in State Street Custodial Account	100,000
Category 2	0
Category 3	
Deposits in City of Fresno Investment Pool	236,123
Total Category 3 Cash	236,123
Total Cash and Deposits	336,123
Total Investments and Cash	\$ 941,028,146
A reconciliation of total investments as shown on the Statement of Plan Net Assets follows:	
Cash	\$ 336,123
Investments at Fair Value	824,630,693
Collateral Held for Securities Lent	116,061,330
Total	\$ 941,028,146



NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

7. DERIVATIVES

The Retirement Board has authorized certain investment managers to invest in or otherwise enter into transactions involving derivative financial instruments when, in the judgment of management, such transactions are consistent with the investment objectives established for a specific investment manager's assignment. The Retirement Board monitors and reviews each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures. In management's opinion, derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation.

Derivative financial instruments held by the Retirement System consist of the following:

- Cash securities containing derivative features, including callable bonds, structural notes, and collateralized mortgage obligations (CMO's). These instruments are generally traded in over-the-counter bond markets.
- Financial instruments whose value is dependent upon a contractual price or rate relative to one or more reference prices or rates, applied to a notional amount, including interest rate futures, options, swaps and caps; and foreign currency futures and forward contracts. Some of these instruments are exchange-traded and others are traded over-the-counter (OTC).

Market risk: Market risk is the risk of change in value of an instrument in response to changes in a market price or index. While all investments are subject to market risk, derivatives often have a higher degree of market risk than other types of investment instruments. Values of cash securities containing derivative features are often more susceptible to market risk than other types of fixed income securities, because the amounts and/or timing of their scheduled cash flows may fluctuate under changing market conditions, according to their contractual terms. For other types of derivatives, amounts of contractual cash flows may be either positive or negative depending upon prevailing market conditions relative to the reference prices or rates, and thus the values of such instruments may be positive or negative, despite the fact that little or no cash is initially exchanged to enter into such contracts.

Credit Risk: Credit risk of cash securities containing derivative features, is based upon the credit worthiness of the issuers of such securities. The Retirement Board establishes minimum credit requirements for such securities. Exchange traded derivatives are generally considered to be of lower credit risk than OTC derivatives due to the exchange's margin requirements.



NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

8. SECURITIES LENDING

The City of Fresno Municipal Code and the Retirement Board's policies permit the Retirement Board of the Fresno Fire and Police Retirement System and the Retirement Board of the Fresno City Employees Retirement System to use investments of both Systems to enter into securities lending transactions, i.e., loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Systems has contracted with State Street Bank, for securities lending services and all systems securities are available for lending. As custodian, State Street Bank acts as the agent for all securities lending transactions. Collateral must be cash, and securities issued or guaranteed by the U. S. Government or an irrevocable letter of credit. Transactions are collateralized at 102 percent of market value (contract value) for domestic securities and 105 percent of market value (contract values) for international securities. Collateral is marked to market daily. The custodian will invest collateral received in short-term investment funds (maintained by the custodian); money market mutual funds; and other similar investments, as the custodian may select. The carrying amount of securities on loan is equal to fair market value. At year-end, the System has no credit risk exposure to borrowers because the collateral value exceeds market value.

The average term of all System loans is overnight or "on demand". The custodian will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, State Street Bank indemnifies the System to the extent of replacing the securities loaned.

Cash collateral is invested in the lending agent's short term investment pool, which, as of June 30, 2002, had a weighted average duration of 70 days and an average yield of 2.26 percent. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool and a definitive statement of that relationship cannot be formulated by the System. There are no credit risks related to the securities lending transactions as of June 30, 2002.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002 AND 2001

8. SECURITIES LENDING (CONTINUED)

The System's securities lending income is as follows:

	2002	2001
Gross Income	\$ 3,287,356	\$ 7,622,719
Expenses		
Borrower Rebates	2,369,181	6,847,767
Bank Fees	275,487	232,517
Total Expenses	2,644,668	7,080,284
Net Income from Securities Lending	\$ 642,688	\$ 542,435

FAIR VALUE OF LOANED SECURITIES AS OF JUNE 30, 2002

Collateralized by	Cash	Tri-Party	Totals
U.S. Government & Agency	\$ 79,115,343	\$ 2,325,508	\$ 81,440,851
Domestic Equities	20,898,958		20,898,958
Domestic Fixed Equities	1,503,055		1,503,055
International Equities	9,558,026		9,558,026
	\$ 111,075,382	\$ 2,325,508	\$ 113,400,890

FAIR VALUE OF COLLATERAL RECEIVED FOR LOANED SECURITIES AS OF JUNE 30, 2002

Collateralized by	Cash	Tri-Party	Totals
U.S. Government & Agency	\$ 80,847,514	\$ 2,377,625	\$ 83,225,139
Domestic Equities	23,079,569		23,079,569
International Equities	9,756,622		9,756,622
	\$ 113,683,705	\$ 2,377,625	\$ 116,061,330



NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

9. CONTINGENCIES

On August 12, 1998, the Retirement Board adopted legal opinions that have modified the definition of compensation earnable. The cost of any future retirement benefit liabilities has been estimated to be an insignificant amount by the Board's Actuary.

10. ADMINISTRATIVE EXPENSES

Section 2-1719 of the Fresno Municipal Code provides that all administrative costs of the system shall be a charge against the assets of the retirement system.

11. POST RETIREMENT SUPPLEMENTAL BENEFIT PROGRAM (PRSB)

The Post-Retirement Supplemental Benefit ("PRSB") Program was created to provide assistance to eligible retirees to pay for various post-retirement expenses. The Retirement Board will annually review the actuarial valuation report and declare an actuarial surplus if available in accordance with the procedures in Municipal Code Section 2-1745.

If an actuarial surplus is declared, the surplus is allocated into two components, one component composed of two-thirds of the declared surplus, shall be used to reduce or eliminate the City's pension contributions. Any unused portion shall be reserved in the City Surplus Reserve and drawn upon in subsequent years if needed. The remaining one-third component shall be distributed among eligible post-retirement supplemental benefit recipients in accordance with procedures in Municipal Code Section 2-1745(f)(4). Any unused portion shall be reserved in the PRSB Reserve and drawn upon in subsequent years if needed.

For the fiscal year ended June 30, 2002, the System distributed PRSB benefits in the amount of \$5,813,466 to eligible retirees and offset required City pension contributions by \$12,089,482. As of June 30, 2002, the City Surplus Reserve balance was \$11,079,459 and the PRSB Reserve balance was \$10,122,860.



REQUIRED SUPPLEMENTAL SCHEDULES

JUNE 30, 2002 AND 2001

1. REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS

Historical trend information, restated in accordance with GASB 25, is designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due.

(DOLLARS IN MILLIONS)

Actuarial Valuation Date Year Ending June 30	(1) *Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) / Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) / Unfunded AAL Percentage of Covered Payroll (4) / (5)
1993	\$ 242.0	\$ 390.6	62.0%	\$ 148.6	\$ 32.9	(451.7%)
1995	450.4	403.7	111.6%	(46.6)	40.3	(115.6%)
1996	512.8	399.5	128.4%	(113.3)	41.7	(271.6%)
1997	601.6	413.9	145.3%	(187.7)	45.7	(410.3%)
1998	695.2	487.8	142.5%	(207.4)	47.6	(435.8%)
1999	779.5	501.2	155.5%	(278.2)	55.4	(501.4%)
2000	852.4	522.7	163.1%	(329.6)	57.9	(568.4%)
2001	859.1	562.1	152.8%	(296.9)	60.9	(487.0%)

2. REQUIRED SUPPLEMENTAL SCHEDULE EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	% Contribution
1990	\$ 14,266,788	100%
1991	\$ 16,811,035	100%
1992	\$ 17,788,246	100%
1993	\$ 22,220,636	100%
1994	\$ 17,501,586	100%
1995	\$ 8,939,893	100%
1996	\$ 9,343,137	100%
1997	\$ 8,785,897	100%
1998	\$ 8,529,691	100%
1999	\$ 9,902,372	100%
2000	\$ 11,177,855	100%
2001	\$ 11,927,688	100%
2002	\$ 12,089,482	100%



NOTES TO THE REQUIRED SUPPLEMENTAL SCHEDULES

Actuarial Assumptions

William M. Mercer, Inc., the System's actuary, performed an actuarial valuation and experience analysis as of June 30, 2001. The actuarial assumptions used to compute the contribution requirements and to determine funding status are as follows:

1. Annual inflation is assumed at 4.50%.
2. Annual investment return is assumed to be 8.25%.
3. The City contribution rate for the Fire and Police First Tier is set at 25.52% (normal cost of 25.52% is offset by applying prefunded actuarial accrued liability of 25.52%) The City's contribution rate for the Second Tier is 14.67% (normal cost of 14.67% is offset by applying prefunded actuarial accrued liability of 14.67%).
4. For the Fire and Police First Tier, employee contribution rates depend upon entry age with rates for ages 25, 35 and 45 being 5.2%, 6.5% and 6.43% respectively. Employee contribution rates for the Second Tier are set at 9% by the Fresno Municipal Code.
5. Accrued benefits and costs are calculated using the entry age normal cost method.
6. Withdrawal, disability, and salary increase assumptions are based on actual System experience.
7. Post retirement mortality assumptions are based on the Society of Actuaries 1994 Group annuity Mortality Tables, male/female.
8. Actuarial valuation of assets is based upon a three-year smoothed recognition of realized and unrealized capital gains and losses.
9. Average annual salary increases were assumed to be 6.1%.
10. The System's actuarial surplus is being amortized on a level percentage of projected payroll over a fixed 15-year open period.



SUPPLEMENTAL SCHEDULES

**SCHEDULE OF ADMINISTRATIVE EXPENSES
YEAR ENDED JUNE 30, 2002 AND 2001**

	2002	2001
Personnel Services		
Staff Salaries	\$ 191,947	\$ 156,175
Fringe Benefits	27,581	24,066
Pension Contribution	2,884	12,336
Total Personnel Services	<u>\$ 222,412</u>	<u>\$ 192,577</u>
Professional Services		
Actuarial	\$ 42,370	\$ 92,310
Legal Counsel	56,650	67,800
Information Systems Services	5,000	7,200
Specialized Services	47,092	14,773
Total Professional Services	<u>\$ 151,112</u>	<u>\$ 182,083</u>
Communication		
Printing	\$ 9,405	\$ 3,650
Telephone	2,059	2,357
Postage	8,799	6,768
Total Communication	<u>\$ 20,263</u>	<u>\$ 12,775</u>
Rentals		
Office Rent	\$ 14,974	\$ 15,613
Total Office Rent	<u>\$ 14,974</u>	<u>\$ 15,613</u>
Other		
Education and Conference	\$ 49,949	\$ 39,061
Membership & Dues	1,453	1,642
Subscriptions & Publications	376	225
Office Supplies	2,288	1,943
Miscellaneous	11,558	7,379
Reimbursement to City for Services	37,363	51,585
Total Other	<u>\$ 102,987</u>	<u>\$ 101,835</u>
Total Administrative Expenses	<u><u>\$ 511,748</u></u>	<u><u>\$ 504,883</u></u>



SUPPLEMENTAL SCHEDULES

**SCHEDULE OF MANAGEMENT FEES AND
OTHER INVESTMENT EXPENSES
YEAR ENDED JUNE 30, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Investment Manager Fees		
Equity		
Domestic	\$ 1,561,584	\$ 1,858,691
International	478,703	627,535
Fixed Income		
Domestic	728,523	800,903
Real Estate	700,433	702,695
Total Portfolio Management Fees	<u>3,469,243</u>	<u>3,989,824</u>
Other Investment Expenses		
Foreign Income Taxes	195,025	219,199
Custodial Services	100,449	98,838
Investment Consultant	71,336	69,650
Prepaid Employer Contribution Interest Expense	1,414,827	1,307,000
Securities Lending Expense	2,644,668	7,080,284
Total Other Investment Expenses	<u>4,426,305</u>	<u>8,774,971</u>
Total Investment Manager Fees and Other Investment Expenses	<u><u>\$ 7,895,548</u></u>	<u><u>\$ 12,764,795</u></u>

**SCHEDULE OF PAYMENTS TO CONSULTANTS
YEAR ENDED JUNE 30, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Legal Services	\$ 56,650	\$ 67,800
Actuarial Services	42,370	92,310
Miscellaneous	47,092	14,773
City Information Services	5,000	7,200
Total Payments to Consultants	<u><u>\$ 151,112</u></u>	<u><u>\$ 182,083</u></u>



This page intentionally left blank.



Investment Consultant's Report On Investment Activity

DORN, HELLIESEN & COTTLE INC.

October 14, 2002

INVESTMENT CONSULTING

Mr. William Quick, Chairman
Mr. Brian Burry, Chairman
City of Fresno Retirement Systems
2600 Fresno Street, Room 2162
Fresno, California 93721-3622

Dear Messrs Quick & Burry:

Introduction and Overview

For the second consecutive year, the investment markets and the City of Fresno Fire & Police and Employees Retirement Systems had negative investment returns for the fiscal year ended June 30, 2002. The last two years of negative investment performance reverses a previous six-year trend of positive investment returns. For the year ended June 30, 2002, the combined Systems had a net total loss from investments of 5.8%. This was only the second year of negative investment returns during the past ten fiscal years and was the third fiscal year return below the actuarial interest rate assumption. Given that information, three years were substantially offset by seven years of positive double-digit investment returns. The recent fiscal year return is below long-term expectations and below the Systems' total fund benchmark loss of 4.1%.

The Systems' total fund return over the past five years has averaged 6.4% versus the fund benchmark¹ of 5.3% and the actuarial interest rate assumption of 8.25%. Over the past five years, the Systems have earned an average return of approximately 1.85% per year below the actuarial interest rate assumption. During the past seven years, the Systems' achieved a 9.7% total fund return, versus 8.7% for the fund benchmark. The excess return above the actuarial interest rate was 1.0%.

Summary of Investment Objectives

The Boards hold fiduciary responsibility for the Systems. Given that investment performance is primarily determined by asset allocation decisions, the Boards have adopted a diversified asset Allocation Plan. This Plan is partially based on an analysis of the Systems' liabilities and their cash flow requirements. Other factors considered in the construction of the Plan are an effort to maximize the return on invested assets, and an attempt to minimize risk exposures.

¹ The current benchmark is 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI Emerging Markets Free, 7% NCREIF Index, 28% Lehman Brothers Aggregate Bond Index, 7% Lehman Gov't/Corp Long Bond Index, 2% Salomon Brothers High Yield Index, and 2% Brinson Partners Private Equity Index. From 2nd quarter 2001 through 4th quarter 2001, the benchmark was 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI Emerging Market Free, 7% Wilshire Real Estate Funds, 28% Lehman Aggregate, 7% Lehman Gov't/Corp Long, 2% Solomon Brothers High Yield, and 2% Brinson Partners Private Equity indexes.



Investment Consultant's Report On Investment Activity

DORN, HELLIESEN & COTTLE INC.

Messrs Quick & Burry
Page Two

The primary investment objectives of the asset allocation Plan and investment manager structure are:

- 1) At a minimum, achieve a nominal return equivalent to the Systems' actuarial interest rate.
 - 2) Earn a total return that averages 4% to 6% in excess of the rate of inflation.
 - 3) Exceed the return of the Systems' passive, market-based, investment benchmark.
 - 4) Achieve a total fund return ranking above the median of other public sector retirement funds.
- Risk-adjusted performance is expected to also be above that of the median pension fund.

In the past fiscal year, the Systems had difficulty satisfying these objectives. Prior to the past two fiscal years, each of these objectives was consistently satisfied over a five-year period. However, due to some of the System's equity managers under-performing the broad equity market benchmarks, these benchmarks have not been met recently. The ongoing bear market for common stocks has made the benchmarks difficult to meet. We expect to exceed these objectives once common stock returns begin to stabilize.

Investment Market Overview

Much like the past two fiscal years, the current year was also quite volatile. Factors adversely impacting the equity markets were an economic recession, the terrorist attacks of September 11th, on-going concerns related to terrorism, financial statement manipulation and fraud by several large companies, the demise of many technology companies and the prospects for war. As a result of these and other factors, domestic equity markets declined significantly in the third quarter of 2001 and then recorded a strong rebound in the fourth quarter of 2001. The first quarter of 2002 was essentially flat and the second quarter of 2002 saw another significant decline in the markets. Through the first three quarters of the fiscal year, the S&P 500 declined slightly more than 5% and then had a negative return of over 13%. For the year, the S&P 500 declined 18%.

In the third quarter of 2001, the S&P 500 posted a loss of 14.7%, with small cap stocks declining even further, as evidenced by the Russell 2000 loss of 20.8%. Internationally, the MSCI EAFE Index had a comparable loss to domestic large cap stocks, at 14.0% in US\$ terms. Thankfully, domestic bond performance was strong, with the Lehman Aggregate Index up 4.6%.

During the fourth quarter of 2001, both the domestic and international equity markets rebounded strongly, while the bond market was flat. The S&P 500 returned 10.7% in the quarter and the Russell 2000 was up 21.1%. The EAFE Index was lower than domestic stocks, at 7.0% in US\$ terms. Domestic bonds did not add to returns, with the Lehman Aggregate Index returning 0.0%.

All capital markets were soft in the fiscal year's third quarter, with both large cap stocks and bonds producing only slightly positive results. The S&P 500 returned 0.3%, while the Lehman Aggregate Index returned 0.1%. Small cap stocks had somewhat stronger returns with the Russell 2000 up 4.0%. Internationally, the MSCI EAFE Index advanced a modest 0.6% in US\$ terms.

**Investment Consultant's Report On Investment Activity****DORN, HELLIESEN & COTTLE INC.**

Messrs Quick & Burry
Page Three

Finally, in the second calendar quarter of 2002 (or the fourth quarter of the fiscal year) domestic equity results declined significantly, again. The S&P 500 posted a loss of 13.4% while small cap stocks declined 8.4%, as represented by the Russell 2000. Internationally, the MSCI EAFE Index posted a more modest loss of 1.9% in US\$ terms. Domestic bond performance was strong, with the Lehman Aggregate Index up 3.7%.

Summary of Investment Results

The combined Systems results followed the overall market trends on a quarterly basis. Third quarter 2001 saw the combined Systems decline 7.8%, and modestly trailed the 7.6% loss of its benchmark. This return ranked the Systems in the third quartile (63rd percentile) of pension funds. With a rebounding of equity market returns in the fourth quarter of 2001, the combined System's returned 6.3%, ranking near median (54th percentile) versus other pension funds. This combined System return trailed the benchmark return of 7.7%. Total System returns were dramatically impacted by the System's mid cap manager and one small cap manager. Please note that this mid-cap manager was subsequently replaced. In the calendar first quarter of 2002, the total System performance was slightly positive, with a return of 0.5%, modestly trailing its benchmark and ranked in the 53rd percentile of pension funds. During calendar second quarter 2002, the total System declined 4.4%, equaling its benchmark and ranked in the 43rd percentile of pension funds. In summary, the second fiscal quarter of the year significantly reduced the relative performance versus the total System benchmark.

As mentioned earlier, the Systems' total System loss for fiscal year 2002 was 5.8%. This was more than the total System benchmark loss of 4.1% and ranked in the 60th percentile of total pension funds.

Asset Allocation

The Systems' combined fund ended the fiscal year with all asset segments well within their allocation target ranges. The allocation to domestic small cap is slightly above target due to the elimination of the mid cap portfolio. Fixed income assets were over-allocated, as of June 30, 2002, due to the poor performance of the equity markets.

Transaction Cost Analysis and Brokerage Recapture Programs

Similar to the last few years, trading costs associated with the Systems' domestic equity managers were reviewed to ensure that commission costs were reasonable and execution costs appropriate. Overall commission and price penalty costs were stable, which indicates that effective trading is being practiced. Additionally, the commission recapture program is being implemented through a number of brokerage firms. A significant percentage of equity trading is being executed through the program, generally at a low cost, and has resulted in a meaningful cost recapture.

**Investment Consultant's Report On Investment Activity**DORN, HELLIESEN & COTTLE INC.

Messrs Quick & Burry
Page Four

Performance Comparison

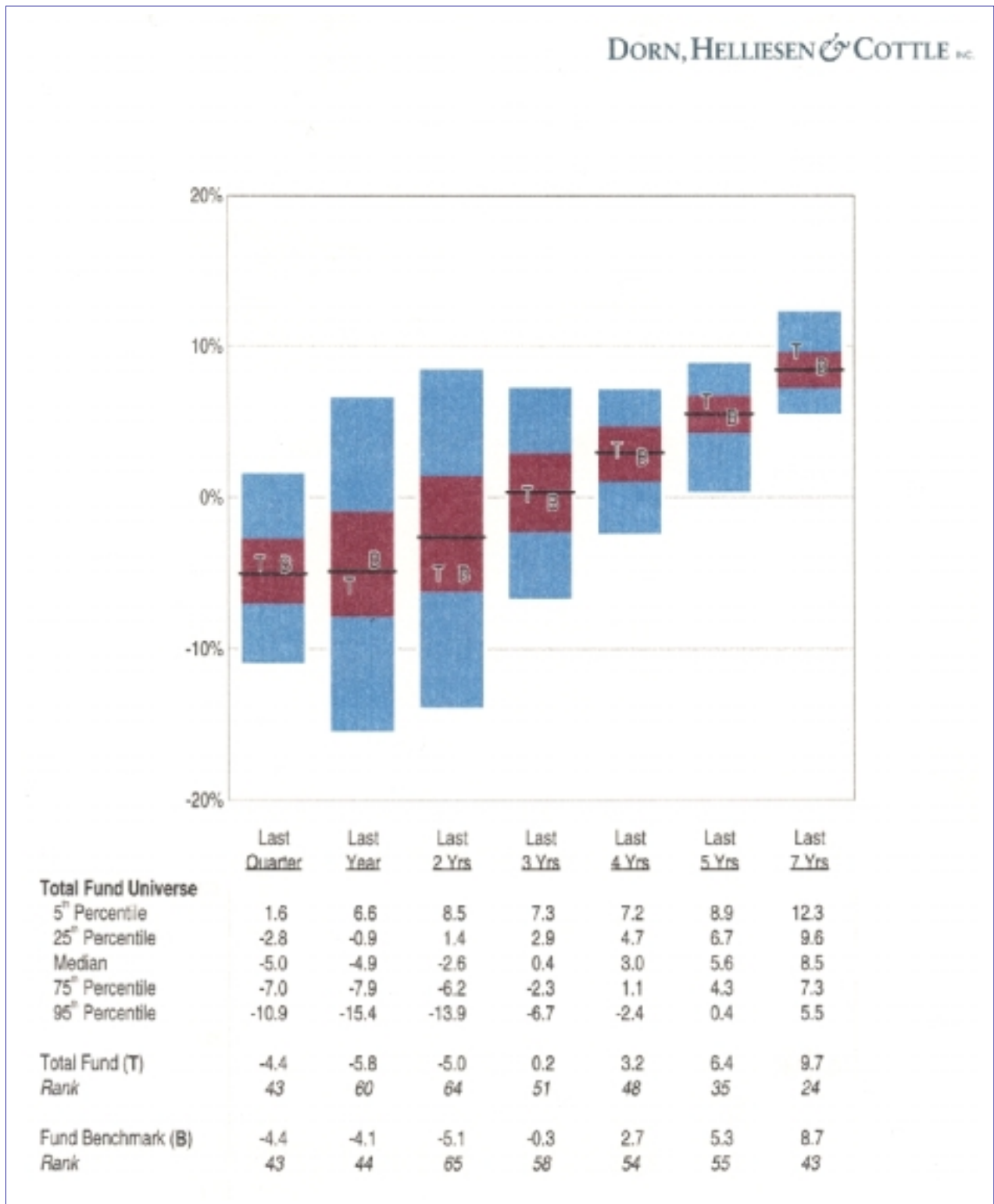
The following page provides a table comparing the Systems' total fund return to all pension funds. The vertical bands represent the range of fund performances with the red band representing the 25th percentile at the top and 75th percentile at bottom. The solid black line represents the median fund's performance. As the graph illustrates the fund has ranked above the benchmark over all periods greater than the past year. Relative to the median fund, the Systems have out-performed over the four- through seven-year periods.

Summary

In conclusion, long-term results remain strong, however, the fund experienced a difficult fiscal year with a loss of 5.8%, versus a 4.1% decline of the benchmark and a 4.9% median total fund loss. Most of the portfolio managers who were not competitive with their respective benchmarks have been replaced and most of the newly hired portfolio managers are adding to improved relative results. While most of the equity managers were greatly challenged during past year, the fixed income asset class performed well and offered excellent diversification. At all times, the Funds were managed in accordance with the Systems' policies.

Sincerely,

William R. Cottle, CFA

*Investment Consultant's Report On Investment Activity*



SUMMARY OF INVESTMENT OBJECTIVES AND POLICIES STATEMENT

The System's investment assets are managed by external investment management firms. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term investment strategies.

The System's goal is to fund benefit payments, while assuming a risk posture that is consistent with the Board's risk tolerance, protecting against loss of purchasing power by achieving rates of return above inflation, and to maintain a fully funded pension status.

The Retirement Board, having sole and exclusive authority and sole and exclusive fiduciary responsibility for the investment and administration of the System, and its assets, has adopted an Investment Objectives and Policy Statement which reflects the Board's policies for management of the System's investments. The Board reserves the right to amend, supplement or rescind this Statement at any time. The Investment Objectives and Policy Statement establishes investment program goals and policies, asset allocation policies, performance objectives, investment management policies and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian and consultants.

The System's primary investment objective is to take prudent risk, as necessary, to minimize the cost of meeting the obligations of the System. The purpose of the Investment objectives and Policy Statement is to express in operational terms: Return expectations, prudence with respect to risk and compliance with statutes and regulations.

An integral part of the overall investment policy is the strategic asset allocation policy. This allocation mix is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. This emphasizes a maximum diversification of the portfolio that protects the Trust from declines that a particular asset class may experience in a given period. Both traditional assets (cash, bonds, domestic stocks, fixed income and mortgages) and nontraditional assets (real estate, international stock and emerging equity market stock) are included in the mix.

Total portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for the System. Prudent risk taking is warranted within the context of overall portfolio diversification to meet this objective. All activities will be conducted so as to serve the best interests of the System's members and beneficiaries.

In recognition of its duty to manage retirement plan assets in the best interest of the plan participants, the Board has established proxy voting guidelines and procedures which are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of plan participants. These guidelines consist of preferences with respect to specific, recurring proxy-voting issues followed by a general statement of voting policies. The System will at all times strive to cast proxy votes so as to advance the overall good of plan participants.



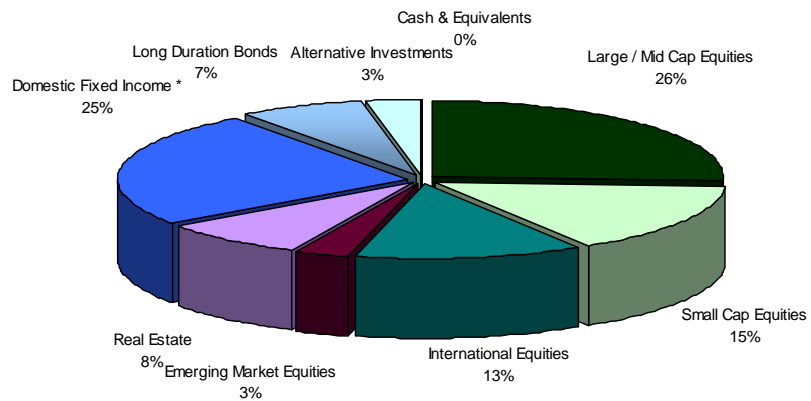
INVESTMENT RESULTS

	Fiscal Year 2002	2 Year	Annualized 3 Year	Annualized 5 Year	Annualized 7 Year
Domestic Equity					
Total Large Cap Domestic Equity	-19.7	-17.1	-10.6	3.2	9.9
Median Equity	-15.7	-13.1	-4.9	5.0	10.9
Benchmark: S&P 500	-18.0	-16.4	-9.2	3.7	10.7
 Total Small Cap Domestic	 -13.6	 -8.4	 0.6	 4.9	 8.8
Median Equity	-15.7	-13.1	-4.9	5.0	10.9
Benchmark: Russell 2000	-8.6	-4.1	1.7	4.4	8.7
International Equity					
Total International Equity	-0.7	-8.0	-0.6	3.3	8.2
Median International Equity	-8.0	-14.9	-1.6	3.0	6.9
Benchmark: EAFE	-9.2	-16.6	-6.5	-1.3	2.7
Emerging Market Equity					
Total Emerging Market Equity	2.5	-5.8	-0.7	N/A	N/A
Median Emerging Market Equity	0.7	-13.7	-4.9	-7.6	-1.8
Benchmark: MSCI Emerging Markets Free Index	1.3	-13.3	-6.3	-8.4	-3.3
Fixed Income					
Total Fixed Income	8.5	9.8	7.4	6.7	6.6
Median Fixed Income	8.0	9.7	8.0	7.5	7.2
Benchmark: Lehman Aggregate Bond Index	8.6	9.9	8.1	7.6	7.3
Long Duration Fixed Income					
Total Long Duration Fixed Income	8.0	10.0	8.2	8.3	8.1
Benchmark: Lehman Long Gov/Corp	8.3	9.8	8.0	8.2	7.7
Real Estate					
Total Real Estate	3.2	6.8	9.2	11.8	N/A
Benchmark: NCREIF Index	5.0	8.0	9.2	11.5	10.9
Total Fund					
Retirement System	-5.8	-5.0	0.2	6.4	9.7
Median Total Fund	-4.9	-2.6	0.4	5.6	8.5
Benchmark: Weighted Indexes	-4.1	-5.1	-0.3	5.3	8.7

Calculations are prepared using a time-weighted rate of return based on the market rate of return in accordance with Association for Investment Management and Research's performance presentation standards.



Target Allocation

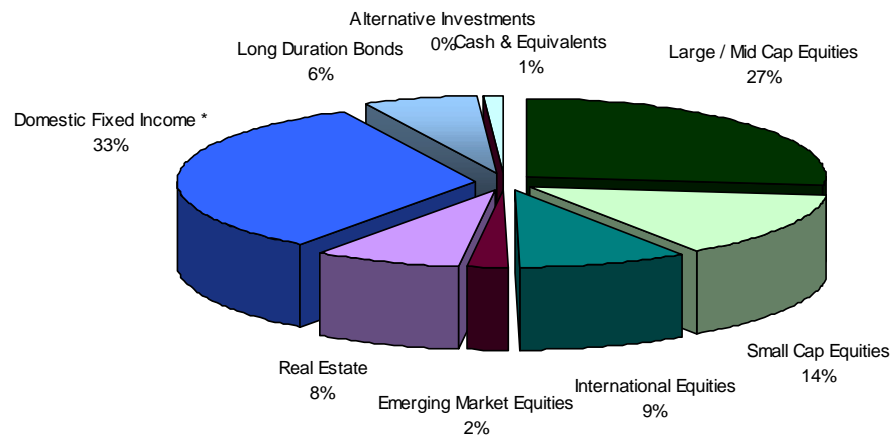


Asset Class	Current Target	Allocation Range	Actual
Large / Mid Cap Equities	26%	21% - 31%	27%
Small Cap Equities	15%	13 - 17	14%
International Equities	13%	11 - 15	9%
Emerging Market Equities	3%	2 - 5	2%
Real Estate	8%	6 - 10	8%
Domestic Fixed Income *	25%	20 - 26	33%
Long Duration Bonds	7%	5 - 9	6%
Alternative Investments	3%	0 - 5	0%
Cash & Equivalents	0%	0 - 2	1%

* 2% High Yield Bonds managed within Domestic Fixed Income

	Expected	Actual
Expected Return	8.7%	-5.8%
3 Year Standard Deviation	11.8	11.0%

Actual Asset Allocation





LARGEST STOCK/BOND HOLDINGS

**Largest Stock Holding (By Market Value)
As of June 30, 2002**

	Shares	Stock	Market Value
1)	108,633	Microsoft Corp	\$ 5,938,582
2)	191,153	General Electric Co	5,549,614
3)	158,301	Pfizer Inc	5,537,164
4)	129,131	Citigroup Inc	5,000,750
5)	68,074	American Intl Group Inc	4,641,867
6)	73,516	Johnson & Johnson	3,839,623
7)	96,133	Home Depot Inc	3,528,802
8)	63,294	Wal Mart Stores Inc	3,479,680
9)	47,087	Kohls Corp	3,297,810
0)	92,160	MBNA Corp	3,045,883
Total Largest Stock Holdings			\$ 43,859,775

**Largest Bond Holding (By Market Value)
As of June 30, 2002**

	Par	Bonds		Due	Market Value
1)	8,005,575	FHLMC TBA Jul 30 Gold Single	8.875%	31 Dec 2099	\$ 8,168,168
2)	7,521,140	United State Treas Nts	6.750%	15 May 2007	7,624,555
3)	5,360,136	United State Treas Bds	5.750%	15 Feb 2019	7,289,785
4)	6,361,457	FNMA Pool	6.500%	01 Jan 2032	6,484,679
5)	6,355,893	United States Treas Nts	6.125%	31 May 2004	6,405,532
6)	3,990,971	United States Treas Bds	6.250%	15 Nov 2021	5,104,691
7)	4,934,631	FNMA Pool	6.500%	01 Feb 2032	5,030,215
8)	4,486,201	United States Treas Bds	7.000%	15 Feb 2026	4,665,649
9)	4,422,470	FNMA Pool	6.000%	01 Oct 2031	4,508,133
0)	4,017,454	FNMA TBA Jul 30 Single Fam	7.500%	01 Dec 2099	4,095,312
Total Largest Bond Holdings					\$ 59,376,719

A complete list of portfolio holdings is available upon request.



SCHEDULE OF COMMISSIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

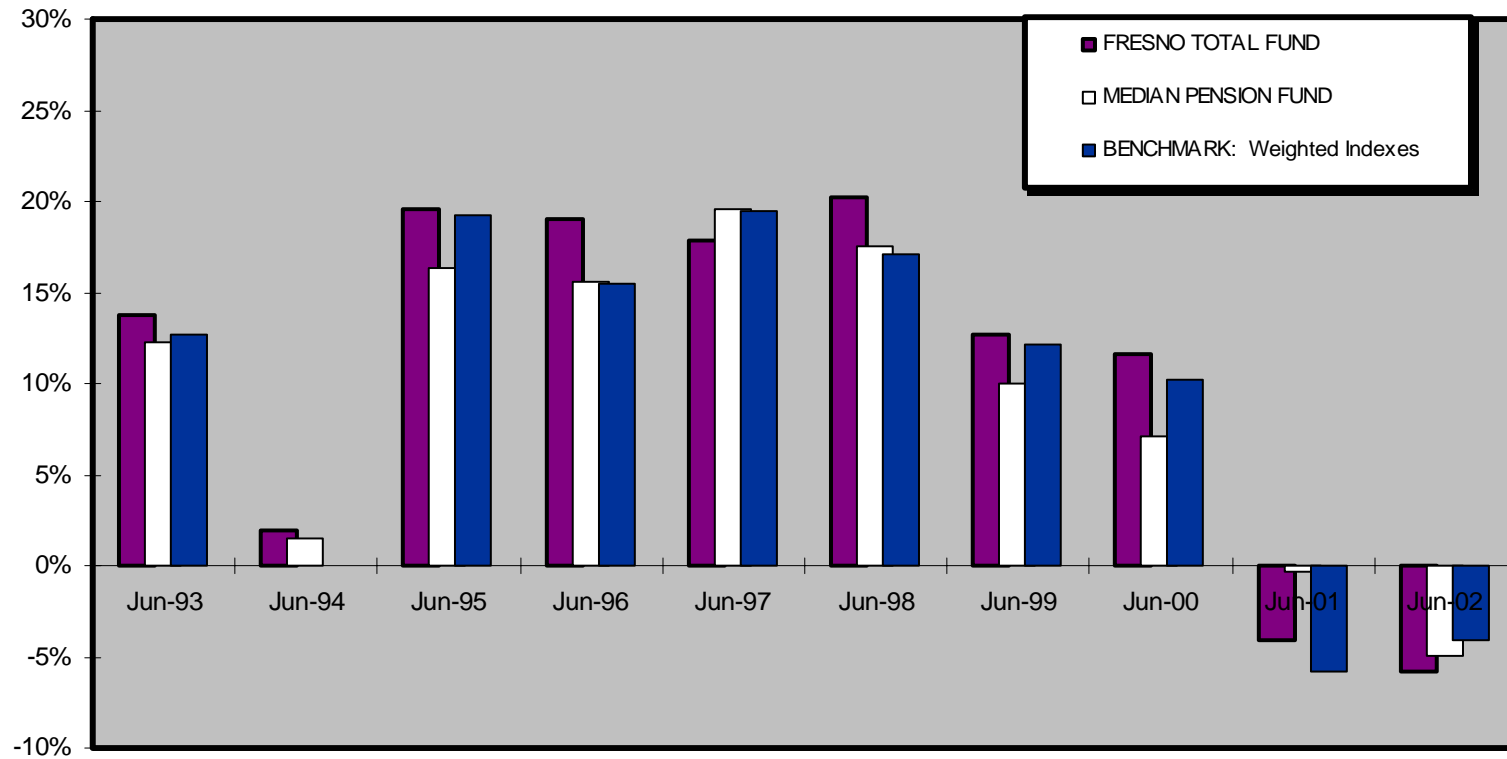
Broker	Total Commissions	Number of Shares	Comm. Cost/ Share
Goldman Sachs & Co	\$ 57,523	1,315,648	\$0.04
Broadcort thru Merrill-Rcp*	51,346	888,349	0.06
Merrill Lynch Pierce Fenner	38,855	1,124,581	0.03
Banc America Sec Mont Div.	31,960	1,104,572	0.03
Morgan Stanley & Co Inc.	30,879	1,338,359	0.02
Lehman Brothers Inc.	30,137	718,358	0.04
Salomon Smith Barney Inc.	25,841	807,700	0.03
Deutsche Banc Alex Brown	24,192	498,907	0.05
Credit Suisse First Boston	20,531	853,800	0.02
J.P. Morgan Inv. Mgt.	19,645	633,324	0.03
Top 10 Total	330,909	9,283,598	0.04
All Other Brokerage Firms	287,886	11,422,584	0.03
Total	\$ 618,795	20,706,182	\$0.03

INVESTMENT SUMMARY

	Cash and Investment Value as of June 30, 2002	Percent of Fund
Equity		
Domestic	\$ 325,997,961	39.5%
International	71,046,306	8.6%
Emerging Market Equity	18,788,265	2.3%
Fixed Income		
Domestic	308,103,947	37.4%
Real Estate	65,426,417	7.9%
Short Term Investments	35,267,797	4.3%
Total	\$ 824,630,693	100.0%



City of Fresno Retirement Systems Total Fund/Median Fund Annual Return*





This page intentionally left blank.

**Actuarial Certification Letter****WILLIAM M.
MERCER**

Revised 12/10/01

Actuarial Certification

The annual actuarial valuation required for the City of Fresno Fire and Police Retirement System has been prepared as of June 30, 2001 by William M. Mercer, Incorporated. In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to determine a sound value for the System's assets, liability and future contribution requirements. Our calculations are based upon member and financial data provided to us by the System's staff. This data has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior valuation data.

The contribution requirements are determined as a level percentage of payroll. The funding objective of the employer is to provide a contribution to fund for both normal cost and a contribution to amortize the unfunded actuarial accrued liability. As of June 30, 2001 there is no unfunded actuarial accrued liability, since the System has assets in excess of the actuarial accrued liability. The required contributions in the main body of this report have not been reduced for such "surplus". The allocation of surplus as described in Section 2-1745 of the City of Fresno Municipal Code is provided in the surplus allocation section.

Contribution levels are recommended by the Actuary and adopted by the Board every year. The ratio of Actuarial Value of Assets to Actuarial Accrued Liabilities decreased from 163.1% to 152.8% from June 30, 2000 to June 30, 2001, primarily due to unfavorable investment experience.

Effective December 11, 2000, two optional forms of benefits (options 2 and 3) were made available for DROP participants. We have incorporated this plan amendment in our June 30, 2001 valuation.

The following changes in actuarial assumptions are used in the determination of actuarial present values in this valuation:

- (1) Modified noneconomic assumptions from the two year experience study;
- (2) The merit and longevity component of the salary increase assumption was modified.

In our opinion, the combined operation of the assumptions and methods applied in this valuation, fairly represent past and anticipated future experience of the Retirement System and meet the parameters required by GASB Statement 25.

A list of supporting schedules we prepared for inclusion in the actuarial and financial sections of the System's CAFR report is provided below.

g:\retire\top&f\2001\wa\fcg-023.doc

William M. Mercer, Incorporated
i

City of Fresno Fire and Police Retirement System

**Actuarial Certification Letter****WILLIAM M.
MERCER**

Revised 12/10/01

(1) Summary of Actuarial Assumptions and Methods;

(2) Solvency Test;

(3) Actuarial Analysis of Financial Experience.

Future contribution requirements may differ from those determined in the valuation because of:

(1) differences between actual experience and anticipated experience;

(2) changes in actuarial assumptions or methods;

(3) changes in statutory provisions; and

(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned is a member of the American Academy of Actuaries and ERISA Enrolled Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

William M. Mercer, Incorporated


Andy Yeung, ASA, EA, MAAA12/10/01

Date

g:\mrc\refp&f2001\waf\leg-023.doc

William M. Mercer, Incorporated
1

City of Fresno Fire and Police Retirement System

**Summary of Assumptions and Funding Method**

APPENDIX B

Appendix B – Summary of Assumptions and Funding Method*Assumptions*

Valuation Interest Rate	8.25%															
Inflation:	4.50%															
Post-Retirement Mortality																
(a) Service																
Males	1994 Male Group Annuity Mortality Table with no set back															
Beneficiaries	1994 Female Group Annuity Mortality Table set forward one year															
(b) Disability	1981 Disability Mortality Table for Safety Members set back five years															
Pre-Retirement Mortality	Based upon the 6/30/01 Experience Analysis															
Withdrawal Rates	Based upon the 6/30/01 Experience Analysis															
Disability Rates	Based upon the 6/30/01 Experience Analysis for Tier 1 Based upon the PERS 2% at 55 Police & Fire Members for Tier 2															
Service Retirement Rates	Based upon the 6/30/01 Experience Analysis for Tier 1 Based upon the PERS 2% at 55 Police & Fire Members for Tier 2															
DROP	The following probabilities are applied: <table><tr><td></td><td><u>Tier 1</u></td><td><u>Tier 2</u></td></tr><tr><td>Year First Eligible</td><td>100%</td><td>50%</td></tr><tr><td>Following Year</td><td>0%</td><td>25%</td></tr><tr><td>Next Following Year</td><td>0%</td><td>10%</td></tr><tr><td>Thereafter</td><td>0%</td><td>0%</td></tr></table>		<u>Tier 1</u>	<u>Tier 2</u>	Year First Eligible	100%	50%	Following Year	0%	25%	Next Following Year	0%	10%	Thereafter	0%	0%
	<u>Tier 1</u>	<u>Tier 2</u>														
Year First Eligible	100%	50%														
Following Year	0%	25%														
Next Following Year	0%	10%														
Thereafter	0%	0%														
	It is assumed that members remain in DROP for 3 years.															
Ultimate Salary Scales	10.00% for the first five years of service. Graded increases thereafter ranging from 6.40% at age 25 to 4.60% at ages 60 and over. Of the total salary increases, 4.50% is for inflation.															
Assets	Three-year smoothed recognition of realized and unrealized capital gains and losses.															

f:\alon\fs01\data\retire\lcp&f2001\veffig-023.doc



Summary of Assumptions and Funding Method

APPENDIX B

Funding Method

The System's liability is being funded on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability amortized as a level percentage of payroll. There is no UAAL as of June 30, 2001.

COLA Assumptions

The annual cost-of-living adjustment is 2.75% for Tier 2 members and 4.25% for Tier 1 members and retirees who have retired with the final average formula. Tier 1 retirees who have retired with the career average formula continue to be valued with a 4.50% COLA.

Percentage Married at Retirement

80% of all active members are assumed to be married at retirement. Their spouses will be eligible for the 2/3 automatic survivor benefits.

\\slp\evfrs01\data\retire\lcp&A\2001\ref\lcp-623.doc

William M. Mercer, Incorporated

1 1

City of Fresno
Fire and Police Retirement System

**Probabilities of Separation Prior to Retirement – Tier 1**

APPENDIX B

**Probabilities of Separation Prior to Retirement
Tier 1**

Age	Withdrawal 0<=X<4	Withdrawal 4<=X<5	Withdrawal 5<=X<10	Withdrawal X>=10	Terminated Vested	Non-Duty Disability	Duty Disability	Non-Dut Death	Duty Death	Service Retirement
<= 20	0.04473	0.02873	0.02873	0.02873	0.00700	0.00000	0.00088	0.00040	0.00040	0.00000
21	0.04473	0.02873	0.02873	0.02873	0.00700	0.00000	0.00088	0.00040	0.00040	0.00000
22	0.04473	0.02873	0.02873	0.02873	0.00700	0.00000	0.00088	0.00040	0.00040	0.00000
23	0.04473	0.02873	0.02873	0.02873	0.00700	0.00000	0.00088	0.00040	0.00040	0.00000
24	0.04473	0.02873	0.02873	0.02873	0.00700	0.00000	0.00088	0.00040	0.00040	0.00000
25	0.04473	0.02873	0.02873	0.02873	0.00700	0.00005	0.00279	0.00050	0.00040	0.00000
26	0.04473	0.02873	0.02873	0.02873	0.00700	0.00005	0.00340	0.00050	0.00040	0.00000
27	0.04473	0.02873	0.02873	0.02873	0.00700	0.00005	0.00402	0.00050	0.00040	0.00000
28	0.04473	0.02650	0.02650	0.02581	0.00700	0.00005	0.00464	0.00050	0.00050	0.00000
29	0.04473	0.02428	0.02428	0.02161	0.00700	0.00005	0.00526	0.00050	0.00050	0.00000
30	0.04473	0.01951	0.01951	0.01770	0.00700	0.00010	0.00313	0.00049	0.00050	0.00000
31	0.04473	0.01562	0.01562	0.01531	0.00700	0.00010	0.00382	0.00049	0.00050	0.00000
32	0.04473	0.01217	0.01217	0.01304	0.00700	0.00010	0.00451	0.00049	0.00050	0.00000
33	0.04473	0.01079	0.01079	0.01037	0.00700	0.00015	0.00527	0.00058	0.00050	0.00000
34	0.04473	0.00925	0.00925	0.00792	0.00700	0.00015	0.00596	0.00057	0.00060	0.00000
35	0.04473	0.00834	0.00834	0.00576	0.00700	0.00030	0.00700	0.00056	0.00060	0.00000
36	0.04473	0.00738	0.00738	0.00461	0.00700	0.00040	0.00750	0.00056	0.00060	0.00000
37	0.04473	0.00637	0.00637	0.00363	0.00700	0.00050	0.00800	0.00056	0.00060	0.00000
38	0.04473	0.00556	0.00556	0.00307	0.00700	0.00070	0.00850	0.00056	0.00070	0.00000
39	0.04473	0.00460	0.00460	0.00255	0.00700	0.00100	0.00900	0.00056	0.00070	0.00000
40	0.04473	0.00380	0.00380	0.00202	0.00700	0.00120	0.00950	0.00060	0.00070	0.00000
41	0.04473	0.00340	0.00340	0.00150	0.00700	0.00160	0.01000	0.00067	0.00080	0.00000
42	0.04473	0.00300	0.00300	0.00120	0.00700	0.00200	0.01050	0.00065	0.00080	0.00000
43	0.04473	0.00260	0.00260	0.00090	0.00700	0.00250	0.01100	0.00072	0.00100	0.00000
44	0.04473	0.00230	0.00230	0.00060	0.00700	0.00250	0.01150	0.00078	0.00110	0.00000
45	0.04473	0.00197	0.00197	0.00030	0.00600	0.00250	0.01250	0.00077	0.00120	0.00000
46	0.04473	0.00157	0.00157	0.00000	0.00550	0.00250	0.01250	0.00083	0.00130	0.00000
47	0.04473	0.00120	0.00120	0.00000	0.00500	0.00250	0.01250	0.00088	0.00140	0.00000
48	0.04473	0.00082	0.00082	0.00000	0.00450	0.00250	0.01250	0.00091	0.00150	0.00000
49	0.04473	0.00044	0.00044	0.00000	0.00400	0.00250	0.01250	0.00101	0.00160	0.00000
50	0.04473	0.00000	0.00000	0.00000	0.00000	0.00200	0.02500	0.00112	0.00170	0.12719
51	0.04473	0.00000	0.00000	0.00000	0.00000	0.00150	0.03500	0.00123	0.00180	0.07631
52	0.04473	0.00000	0.00000	0.00000	0.00000	0.00100	0.04000	0.00135	0.00190	0.07631
53	0.04473	0.00000	0.00000	0.00000	0.00000	0.00050	0.04500	0.00155	0.00200	0.05087
54	0.04473	0.00000	0.00000	0.00000	0.00000	0.00010	0.05000	0.00168	0.00210	0.05087
55	0.04473	0.00000	0.00000	0.00000	0.00000	0.00000	0.07000	0.00190	0.00000	0.10598
56	0.04473	0.00000	0.00000	0.00000	0.00000	0.00000	0.09000	0.00212	0.00000	0.13768
57	0.04473	0.00000	0.00000	0.00000	0.00000	0.00000	0.11000	0.00235	0.00000	0.14030
58	0.04473	0.00000	0.00000	0.00000	0.00000	0.00000	0.12000	0.00267	0.00000	0.16622
59	0.04473	0.00000	0.00000	0.00000	0.00000	0.00000	0.13000	0.00299	0.00000	0.29672
60	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	1.00000

\\atn\fs21\data\retire\top&f\2001\wfr\top-023.doc

William M. Mercer, Incorporated

12

City of Fresno
Fire and Police Retirement System

**Probabilities of Separation Prior to Retirement – Tier 2**

APPENDIX B

**Probabilities of Separation Prior to Retirement
Tier 2**

Age	Withdrawal 0<=X<2	Withdrawal 2<=X<3	Withdrawal 3<=X<4	Withdrawal 4<=X<10	Withdrawal X>=10	Terminated Vested	Non-Duty Disability	Duty Disability	Non-Duty Death	Duty Death	Service Retirement
<= 20	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0000	0.0020	0.0004	0.0004	0.0000
21	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0000	0.0021	0.0004	0.0004	0.0000
22	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0000	0.0023	0.0004	0.0004	0.0000
23	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0000	0.0024	0.0004	0.0002	0.0000
24	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0000	0.0026	0.0004	0.0003	0.0000
25	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0001	0.0028	0.0004	0.0004	0.0000
26	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0001	0.0030	0.0004	0.0004	0.0000
27	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0001	0.0032	0.0004	0.0004	0.0000
28	0.0447	0.0300	0.0250	0.0250	0.0250	0.0070	0.0001	0.0034	0.0005	0.0004	.000000
29	0.0447	0.0300	0.0250	0.0243	0.0216	0.0070	0.0001	0.0037	0.0005	0.0004	.000000
30	0.0447	0.0300	0.0250	0.0195	0.0177	0.0070	0.0001	0.0040	0.0005	0.0004	.000000
31	0.0447	0.0300	0.0250	0.0156	0.0153	0.0070	0.0001	0.0042	0.0005	0.0004	.000000
32	0.0447	0.0300	0.0250	0.0122	0.0130	0.0070	0.0001	0.0045	0.0005	0.0004	.000000
33	0.0447	0.0300	0.0250	0.0108	0.0104	0.0070	0.0002	0.0049	0.0005	0.0004	.000000
34	0.0447	0.0300	0.0250	0.0093	0.0079	0.0070	0.0002	0.0052	0.0006	0.0005	.000000
35	0.0447	0.0300	0.0250	0.0083	0.0058	0.0070	0.0003	0.0056	0.0006	0.0005	.000000
36	0.0447	0.0300	0.0250	0.0074	0.0046	0.0070	0.0004	0.0060	0.0006	0.0005	.000000
37	0.0447	0.0300	0.0250	0.0064	0.0036	0.0070	0.0005	0.0065	0.0006	0.0006	.000000
38	0.0447	0.0300	0.0250	0.0056	0.0031	0.0070	0.0007	0.0070	0.0007	0.0007	.000000
39	0.0447	0.0300	0.0250	0.0046	0.0025	0.0070	0.0010	0.0075	0.0007	0.0007	.000000
40	0.0447	0.0300	0.0250	0.0038	0.0020	0.0060	0.0012	0.0081	0.0007	0.0007	.000000
41	0.0447	0.0300	0.0250	0.0034	0.0015	0.0055	0.0016	0.0087	0.0008	0.0008	.000000
42	0.0447	0.0300	0.0250	0.0030	0.0012	0.0050	0.0020	0.0093	0.0008	0.0008	.000000
43	0.0447	0.0300	0.0250	0.0026	0.0009	0.0045	0.0025	0.0101	0.0010	0.0010	.000000
44	0.0447	0.0300	0.0250	0.0023	0.0006	0.0040	0.0025	0.0108	0.0011	0.0011	.000000
45	0.0447	0.0300	0.0250	0.0020	0.0003	0.0035	0.0025	0.0117	0.0012	0.0012	.000000
46	0.0447	0.0300	0.0250	0.0016	0.0000	0.0030	0.0025	0.0126	0.0013	0.0013	.000000
47	0.0447	0.0300	0.0250	0.0012	0.0000	0.0020	0.0025	0.0136	0.0014	0.0014	.000000
48	0.0447	0.0300	0.0250	0.0008	0.0000	0.0010	0.0025	0.0146	0.0015	0.0015	.000000
49	0.0447	0.0300	0.0250	0.0004	0.0000	0.0005	0.0025	0.0158	0.0016	0.0016	.000000
50	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0020	0.0171	0.0017	0.0017	.053110
51	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0015	0.0184	0.0018	0.0018	.041240
52	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0010	0.0199	0.0019	0.0019	.046350
53	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0005	0.0216	0.0020	0.0020	.142800
54	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0001	0.0233	0.0021	0.0021	.167350
55	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0000	0.0253	0.0000	0.0000	.194560
56	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0000	0.0274	0.0000	0.0000	.117180
57	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0000	0.0297	0.0000	0.0000	.078200
58	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0000	0.0322	0.0000	0.0000	.096870
59	0.0447	0.0300	0.0250	0.0000	0.0000	0.0000	0.0000	0.0350	0.0000	0.0000	.091710
60	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.000000

\\firo\fs01\data\retire\fcpsf2001\waf\fcg-023.doc

William M. Mercer, Incorporated

City of Fresno
Fire and Police Retirement System



SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2001	Active Members	768	\$ 49,611,000	\$ 64,598	3.9%
	DROP Participants	164	11,374,000	69,354	-1.9%
	Totals	932	\$ 60,985,000	\$ 63,453	
June 30, 2000	Active Members	778	\$ 48,381,000	\$ 62,186	4.7%
	DROP Participants	136	9,615,000	70,699	8.5%
	Totals	914	\$ 57,996,000	\$ 63,453	
June 30, 1999	Active Members	796	\$ 47,289,000	\$ 59,408	7.1%
	DROP Participants	126	8,208,000	65,143	-1.2%
	Totals	922	\$ 55,497,000	\$ 60,192	
June 30, 1998	Active Members	730	\$ 40,486,000	\$ 55,460	-3.40%
	DROP Participants	108	7,122,000	65,944	Base Year
	Totals	838	\$ 47,608,000	\$ 56,811	-1.50%
June 30, 1997	Active Members	797	\$ 45,759,000	\$ 57,414	3.00%
June 30, 1996	Active Members	729	\$ 41,739,000	\$ 57,255	2.30%
June 30, 1995	Active Members	717	\$ 40,356,000	\$ 56,285	4.30%
June 30, 1993	Active Members	651	\$ 35,110,000	\$ 53,932	1.10%
June 30, 1991	Active Members	648	\$ 31,451,211	\$ 48,536	1.50%

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO OR REMOVED FROM ROLLS

Year Ended	Added to Rolls	Removed from Rolls	Rolls - End of Year	% Increase in Annual Allowances	Average Annual Allowances
	No.	No.	No.		
June 30, 2002	43	20	686	5.36	\$ 45,401
June 30, 2001	23	24	663	10.81	43,090
June 30, 2000	32	15	664	10.78	38,885
June 30, 1999	15	17	647	20.83	35,101
June 30, 1998	14	10	649	-0.14	29,049
June 30, 1997	13	11	625	4.09	29,091
June 30, 1996	39	11	597	-0.68	27,948
June 30, 1995	21	7	569	2.95	28,139
June 30, 1994	33	6	555	0.19	27,334



SOLVENCY TEST

(ROUNDED TO THE NEAREST THOUSAND)

AGGREGATE ACCRUED LIABILITIES FOR					Portion of Accrued Liabilities Covered by Reported Asset		
Valuation Date	(1) Active Member Contributions	(2) Retirees and Beneficiaries (Includes Deferred Vested)	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/2001	\$ 40,392,000	\$ 420,969,000	\$ 100,770,000	\$ 859,123,000	100%	100%	100%
6/30/2000	39,133,000	381,062,000	102,603,000	852,444,000	100%	100%	100%
6/30/1999	37,816,000	366,529,000	96,928,000	779,518,000	100%	100%	100%
6/30/1998	32,261,000	358,814,000	96,729,000	695,258,000	100%	100%	100%
6/30/1997	45,412,000	254,805,000	113,745,000	601,693,000	100%	100%	100%
6/30/1996	42,424,000	247,231,000	109,888,000	512,889,000	100%	100%	100%
6/30/1994	43,083,000	242,180,000	118,525,000	450,429,000	100%	100%	100%
6/30/1992	34,526,000	224,361,000	131,709,000	242,039,000	100%	92%	0%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(Amounts in Millions)	Plan Years					
	2001	2000	1999	1998	1997	1996
Prior Valuation Actuarial Accrued Liability	\$ 523	\$ 501	\$ 488	\$ 414	\$ 400	\$ 404
Salary Increase (Greater) Less than Expected	(3)	(3)	-	(1)	(2)	-
Asset Return (Less) Greater than Expected	30	40	31	27	16	-
Other Experience	(1)	(1)	-	1	-	(4)
Economic Assumption Changes	18	(5)	(9)	70	-	-
Noneconomic Assumption Changes	(5)	(9)	(9)	(23)	-	-
Ending Actuarial Accrued Liability	\$ 562	\$ 523	\$ 501	\$ 488	\$ 414	\$ 400



MAJOR PROVISIONS OF THE RETIREMENT PLAN

	Fire & Police Retirement System	Fire & Police Second Tier Retirement System														
Coverage	All Fire and Police employees hired on or after October 27, 1927, and before August 27, 1990	All Fire and Police employees hired on or after August 27, 1990.														
Final Average Salary (FAS)	<div>a. Three-year final average salary; or</div> <div>b. Salary attached to rank average-service weighted compensation for each rank held.</div>	<div>a. Highest three consecutive year average</div>														
Service Retirement	<div>a. Requirement: Age 50 and 10 years of Service, or age 60.</div> <div>b. Benefit: (1) and (2)</div> <div><div>(1) 2¼% of FAS times years of service before age 50, not to exceed 20 years</div><div>(2) 2% of FAS times years of service after age 50, not to exceed 10 years</div></div> <div>c. Maximum Benefit: 75% of FAS</div>	<div>a. Requirement: Age 50 and 5 years of service.</div> <div>b. Benefit:</div> <table><thead><tr><th>Retirement Age</th><th>Benefit Formula</th></tr></thead><tbody><tr><td>50</td><td>2.00% x FAS x service</td></tr><tr><td>51</td><td>2.14% x FAS x service</td></tr><tr><td>52</td><td>2.28% x FAS x service</td></tr><tr><td>53</td><td>2.42% x FAS x service</td></tr><tr><td>54</td><td>2.56% x FAS x service</td></tr><tr><td>55 and over</td><td>2.70% x FAS x service</td></tr></tbody></table> <div>c. Maximum Benefit : 75% of FAS</div>	Retirement Age	Benefit Formula	50	2.00% x FAS x service	51	2.14% x FAS x service	52	2.28% x FAS x service	53	2.42% x FAS x service	54	2.56% x FAS x service	55 and over	2.70% x FAS x service
Retirement Age	Benefit Formula															
50	2.00% x FAS x service															
51	2.14% x FAS x service															
52	2.28% x FAS x service															
53	2.42% x FAS x service															
54	2.56% x FAS x service															
55 and over	2.70% x FAS x service															
Deferred Retirement Option (DROP)	An employee who is age 50 with 10 years of service may join the DROP program which is in essence an alternative form of retirement distribution. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work for a maximum of 10 years.	An employee who is age 50 with 5 years of service may join the DROP program which is in essence an alternative form of retirement distribution. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work for a maximum of 10 years.														
Disability Retirement	<div>a. Requirements:<div><div>(1) Service-Connected: None</div><div>(2) Non-Service Connected: 10 years of service.</div></div></div> <div>b. Benefit:<div><div>(1) Service-Connected: 55% of FAS or service retirement, if higher.</div><div>(2) Non-Service Connected: 1.65% x FAS x years of service, if exceeds 36.67% of FAS; or 36.67% of FAS; or service retirement, if higher.</div></div><div>Benefit reduced to the extent that income earned while on disability and the amount of the disability retirement benefits exceeds the current salary attached to the last rank held.</div></div>	<div>a. Requirements:<div><div>(1) Service-Connected: None</div><div>(2) Non-Service Connected: 10 years of service.</div></div></div> <div>b. Benefit:<div><div>(1) Service-Connected: 50% of FAS or service retirement, if higher.</div><div>(2) Non-Service Connected: 1½% x FAS x years of service, if exceeds 1/3 of FAS; or 1/3 of FAS; or service retirement, if higher.</div></div><div>Benefit reduced to the extent that income earned while on disability and the amount of the disability retirement benefits exceeds the current salary attached to the last rank held.</div></div>														

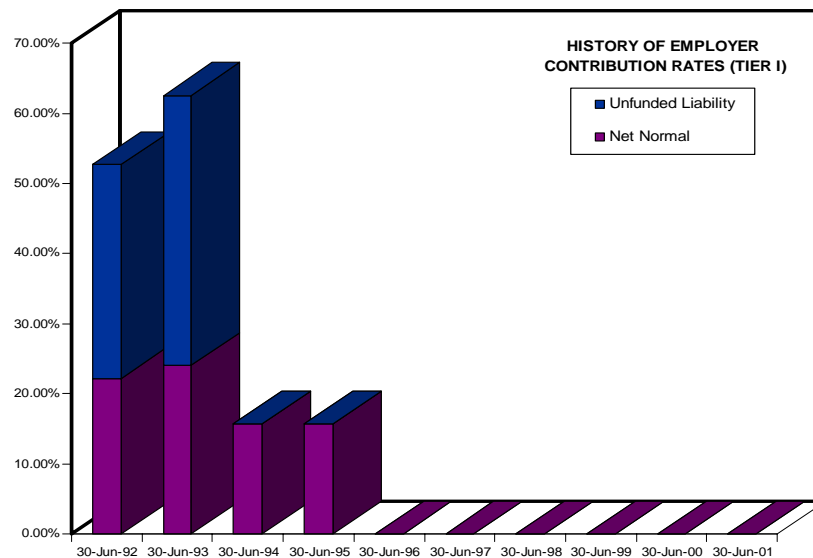


MAJOR PROVISIONS OF THE RETIREMENT PLAN

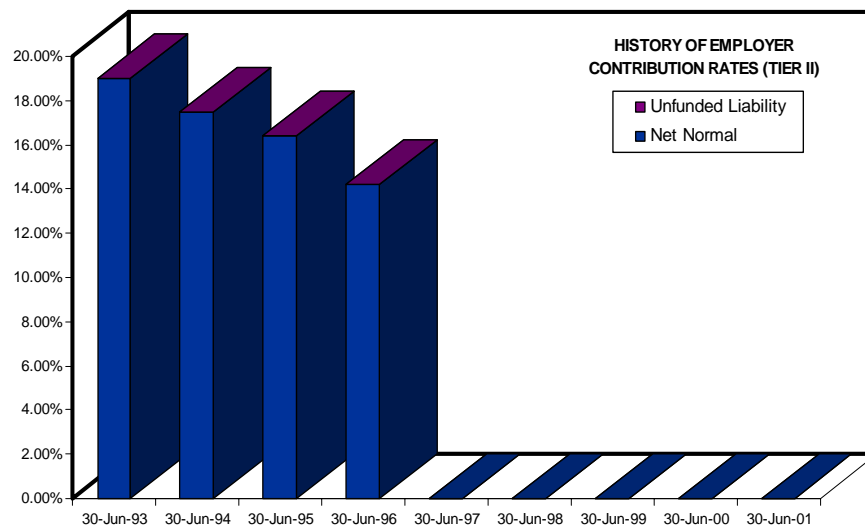
	Fire & Police Retirement System	Fire & Police Second Tier Retirement System
Death Before Retirement	<p>a. Before eligible to retire for disability (less than 5 years). (1) one month's salary for each year of service, not-to-exceed 6 months. (2) return of contributions with interest.</p> <p>b. While eligible to retire (after 10 years): 2/3 of Service or Non-Service-connected Disability Retirement Benefit</p> <p>c. Service-Connected Death: 55% of FAS</p>	<p>b. Before eligible to retire (less than 5 years). (1) one month's salary for each year of service, not-to-exceed 6 months. (2) return of contributions with interest.</p> <p>b. While eligible to retire (after 5 years): 2/3 of Service or Non-Service-connected Disability Retirement Benefit</p> <p>c. Service-Connected Death: 50% of FAS</p>
Death After Retirement	Two-thirds of the member's allowance continued to eligible spouse for life.	Two-thirds of the member's allowance continued to eligible spouse for life.
Withdrawal Benefits	<p>a. If less than 10 years of service, return of contributions.</p> <p>b. If greater than 10 years of service, right to have vested deferred retirement benefit at normal retirement date.</p>	<p>a. If less than 5 years of service, return of contributions.</p> <p>b. If greater than 5 years of service, right to have vested deferred retirement benefit.</p>
Post Retirement Supplemental Benefit	On May 27, 1998, the City Council adopted the Post Retirement Supplemental Benefit ("PRSB") Program which is intended to provide assistance to retirees to pay for various post retirement expenses. Annually, after an actuarial study has been performed, the Retirement Board will review the availability of surplus earnings in the System and determine whether a benefit can be paid to eligible PRSB recipients. If a surplus is declared by the Board, PRSB benefit payments will be calculated for eligible recipients and payments for the following calendar year will begin in January.	On May 27, 1998, the City Council adopted the Post Retirement Supplemental Benefit ("PRSB") Program which is intended to provide assistance to retirees to pay for various post retirement expenses. Annually, after an actuarial study has been performed, the Retirement Board will review the availability of surplus earnings in the System and determine whether a benefit can be paid to eligible PRSB recipients. If a surplus is declared by the Board, PRSB benefit payments will be calculated for eligible recipients and payments for the following calendar year will begin in January.
Cost of Living Benefits	<p>a. Based on the weighted mean average compensation attached to all ranks in the department, limited to a 5% maximum change per year, if based on three-year FAS.</p> <p>b. Based on salary increase for each rank held, if benefit was calculated on salary attached to average rank.</p>	<p>a. Based on the Consumer Price Index for all Urban Wage Earners and all Clerical Workers (U.S. City Average), limited to a 3% change per year.</p>
Member Contribution Rates	Varies based on entry age.	9% of Compensation.



HISTORY OF EMPLOYER NET CONTRIBUTION RATES



Valuation Date	30-Jun-92	30-Jun-93	30-Jun-94	30-Jun-95	30-Jun-96	30-Jun-97	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01
Normal	22.18%	24.06%	15.67%	15.67%	22.72%	21.32%	25.79%	25.29%	25.44%	25.52%
Prefunded Liability	0.00%	0.00%	0.00%	0.00%	-22.72%	-21.32%	-25.79%	-25.29%	25.44%	25.52%
Net Normal	22.18%	24.06%	15.67%	15.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unfunded Liability	30.50%	38.52%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	52.68%	62.58%	65.54%	15.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



Valuation Date	30-Jun-92	30-Jun-93	30-Jun-94	30-Jun-95	30-Jun-96	30-Jun-97	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01
Normal	18.42%	18.99%	18.99%	16.78%	14.66%	15.86%	14.44%	14.57%	14.52%	14.67%
Prefunded Liability	0.00%	0.00%	1.42%	0.34%	0.43%	15.86%	14.44%	14.57%	14.52%	14.67%
Net Normal	18.42%	18.99%	17.48%	16.44%	14.23%	0.00%	0.00%	0.00%	0.00%	0.00%
Unfunded Liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	18.42%	18.99%	17.48%	16.44%	14.23%	0.00%	0.00%	0.00%	0.00%	0.00%

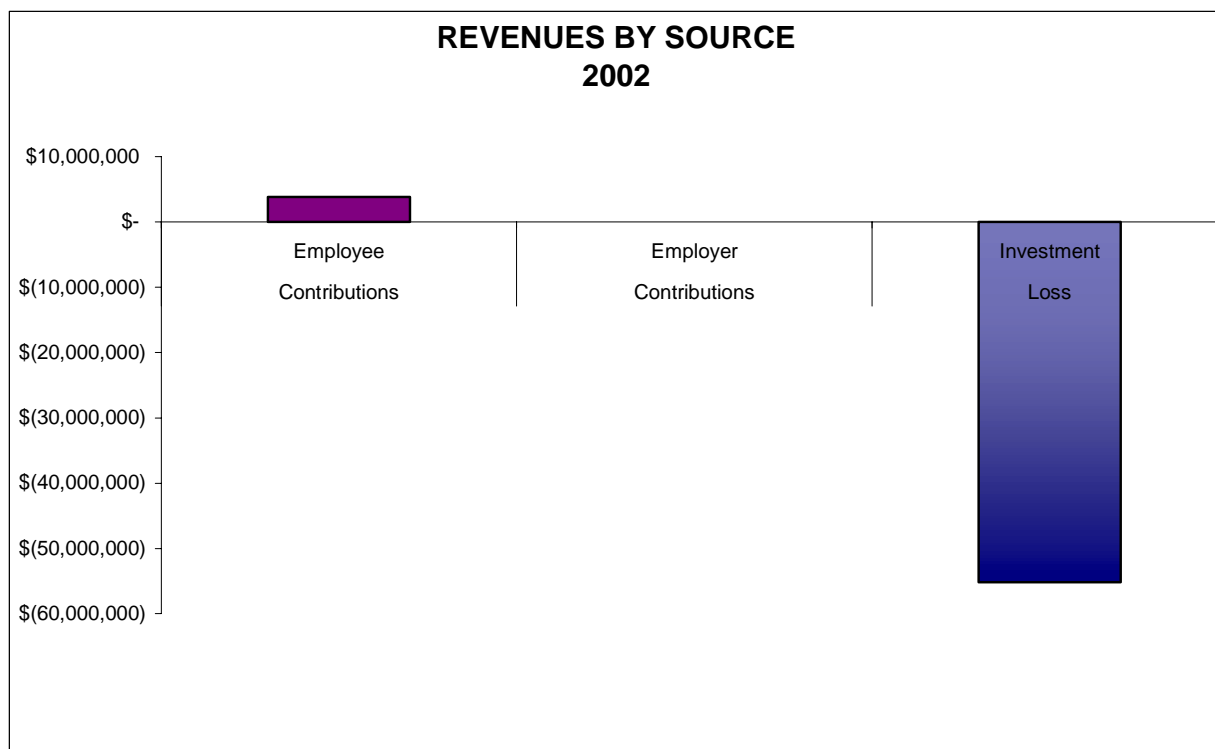


This page intentionally left blank.



2002 COMPREHENSIVE ANNUAL FINANCIAL REPORT

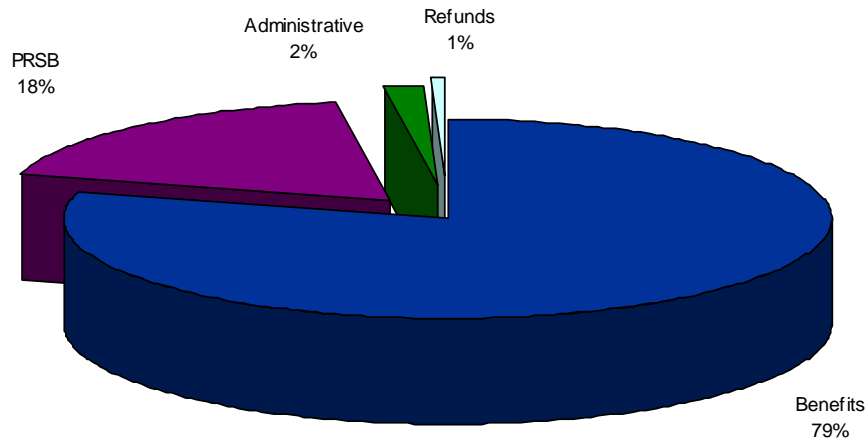
STATISTICAL



TEN YEAR HISTORICAL TREND INFORMATION

Ten-year historical trend information regarding revenues by source is as follows:

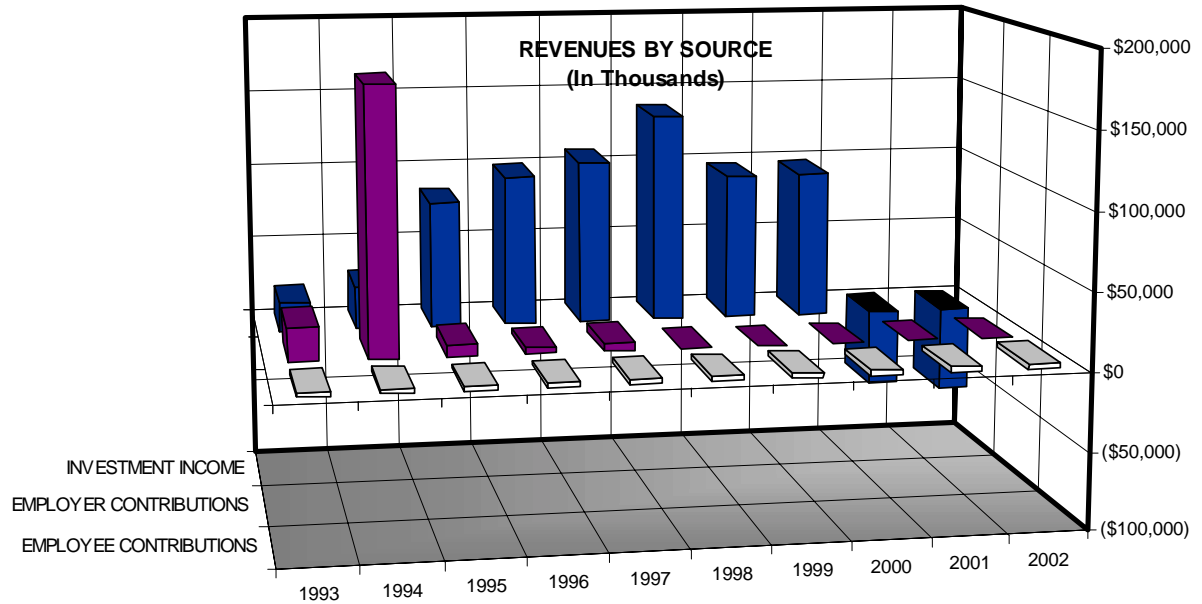
Revenues by Source					
Fiscal Year	Employee Contributions	Employer Contributions	Employer Contributions as a % of Payroll	Investment Income	Total
1993	\$ 2,599,627	\$ 22,220,636	62.58%	\$ 18,987,015	\$ 43,807,278
1994	2,694,443	173,639,335	475.42%	29,861,484	206,195,262
1995	2,510,068	7,619,679	19.60%	82,873,114	93,002,861
1996	2,696,142	4,082,359	10.05%	98,832,021	105,610,522
1997	3,022,264	5,365,502	12.35%	107,202,786	115,590,552
1998	3,133,855	-	0.00%	137,089,576	140,223,431
1999	3,328,616	-	0.00%	95,444,381	98,772,997
2000	3,429,157	-	0.00%	96,269,201	99,698,358
2001	3,779,738	-	0.00%	(49,576,238)	(45,796,500)
2002	3,848,204	-	0.00%	(55,176,871)	(51,328,667)

**EXPENSES BY TYPE
2002****TEN-YEAR HISTORICAL TREND INFORMATION**

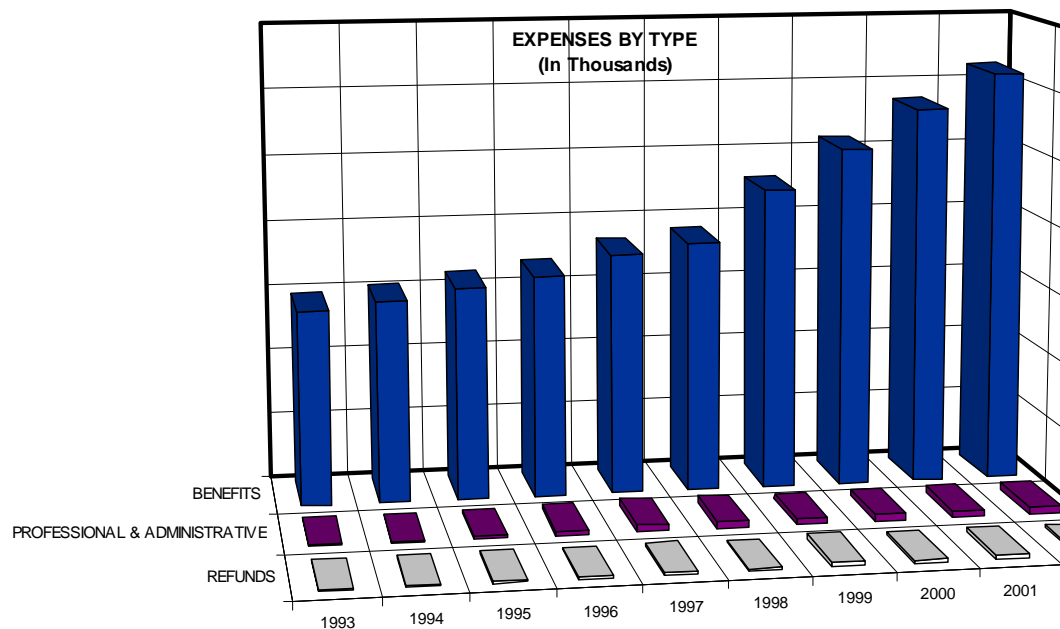
Ten-year historical trend information regarding expenses by type is as follows:

Expenses by Type					
Fiscal Year	Benefits	PRSB	Administrative Expenses	Refunds	Total
1993	\$ 14,624,303	\$ -	\$ 175,199	\$ 145,316	\$ 14,944,818
1994	15,170,531	-	111,656	162,282	15,444,469
1995	16,011,099	-	235,365	189,810	16,436,274
1996	16,685,449	-	330,735	143,570	17,159,754
1997	18,182,008	-	550,796	269,299	19,002,103
1998	18,852,815	-	470,173	172,771	19,495,759
1999	21,249,926	1,460,175	407,355	377,806	23,495,262
2000	21,987,103	3,676,973	474,254	231,397	26,369,727
2001	23,238,096	5,330,384	504,883	319,565	29,392,928
2002	25,331,368	5,813,466	511,748	178,058	31,834,640

Note: Beginning with 1994 GASB 25 required that investment related expenses be netted against investment income and investments be reported at fair value instead of cost as in prior years.



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
EMPLOYEE CONTRIBUTIONS	\$ 2,600	\$ 2,694	\$ 2,510	\$ 2,696	\$ 3,022	\$ 3,134	\$ 3,329	\$ 3,429	\$ 3,780	\$ 3,848
EMPLOYER CONTRIBUTIONS	22,221	173,639	7,620	4,082	5,366	-	-	-	-	-
INVESTMENT INCOME	18,987	28,325	82,873	98,832	107,149	137,090	95,444	96,269	(49,576)	(55,177)
TOTAL	\$ 43,808	\$ 204,658	\$ 93,003	\$ 105,610	\$ 115,537	\$ 140,224	\$ 98,773	\$ 99,698	\$ (45,796)	\$ (51,329)



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
REFUNDS	\$ 145	\$ 162	\$ 190	\$ 143	\$ 236	\$ 173	\$ 378	\$ 232	\$ 320	\$ 178
PROFESSIONAL & ADMINISTRATIVE	114	112	235	331	501	470	407	474	505	512
BENEFITS	14,624	15,171	16,011	16,686	18,182	18,853	22,710	25,664	28,568	31,145
TOTAL	\$ 14,883	\$ 15,445	\$ 16,436	\$ 17,160	\$ 18,919	\$ 19,496	\$ 23,495	\$ 26,370	\$ 29,393	\$ 31,835



SCHEDULE OF AVERAGE BENEFIT PAYMENTS

	Years of Credited Service						Fiscal Year Average/Total Retirants
Retirement Effective Dates	5-10	10-15	15-20	20-25	25-30	30+	
Period 7/1/01 to 6/30/02							
Average Monthly Benefit	\$ 3,849		\$ 3,287	\$ 3,938	\$ 6,635	\$ 7,416	\$ 5,025
Average Final Average Salary	6,371		4,897	5,006	5,581	5,673	5,506
Number of Active Retirants	1		3	4	5	12	25
Period 7/1/00 to 6/30/01							
Average Monthly Benefit	\$ 3,298	\$ 3,658		\$ 3,604	\$ 3,583	\$ 6,431	\$ 4,115
Average Final Average Salary	5,130	4,985		4,244	4,776	5,458	4,919
Number of Active Retirants	2	1		5	3	5	16
Period 7/1/99 to 6/30/00							
Average Monthly Benefit	\$ 3,107	\$ 3,131	\$ 3,247	\$ 3,374	\$ 4,134	\$ 6,315	\$ 3,884
Average Final Average Salary	5,040	4,757	4,414	4,582	5,603	6,971	5,228
Number of Active Retirants	2	3	1	3	1	3	13
Period 7/1/98 to 6/30/99							
Average Monthly Benefit			\$ 1,941	\$ 2,443		\$ 4,609	\$ 2,998
Average Final Average Salary			4,977	4,712		7,236	5,642
Number of Active Retirants			1	2		3	6
Period 7/1/97 to 6/30/98							
Average Monthly Benefit	\$ 2,325	\$ 2,365		\$ 2,919	\$ 2,961	\$ 3,119	\$ 2,738
Average Final Average Salary	4,650	4,731		5,976	5,776	4,901	5,207
Number of Active Retirants	2	1		1	3	2	9
Period 7/1/96 to 6/30/97							
Average Monthly Benefit		\$ 2,345		\$ 2,853	\$ 2,363	\$ 3,235	\$ 2,699
Average Final Average Salary		4,690		5,391	4,918	5,494	5,123
Number of Active Retirants		2		3	5	2	12
Period 7/1/95 to 6/30/96							
Average Monthly Benefit	\$ 2,216	\$ 3,065		\$ 2,014	\$ 2,673	\$ 3,251	\$ 2,644
Average Final Average Salary	4,435	4,130		4,801	4,930	5,215	4,702
Number of Active Retirants	1	1		9	14	11	36
Period 7/1/94 to 6/30/95							
Average Monthly Benefit	\$ 2,134	\$ 2,177		\$ 2,801	\$ 2,563	\$ 2,864	\$ 2,508
Average Final Average Salary	4,271	4,361		5,512	4,747	4,614	4,701
Number of Active Retirants	4	3		3	6	5	21
Period 7/1/93 to 6/30/94							
Average Monthly Benefit	\$ 2,056	\$ 1,947		\$ 1,944	\$ 2,923	\$ 21,972	\$ 6,168
Average Final Average Salary	4,112	5,124		3,724	5,139	4,701	4,560
Number of Active Retirants	2	6		3	10	5	26



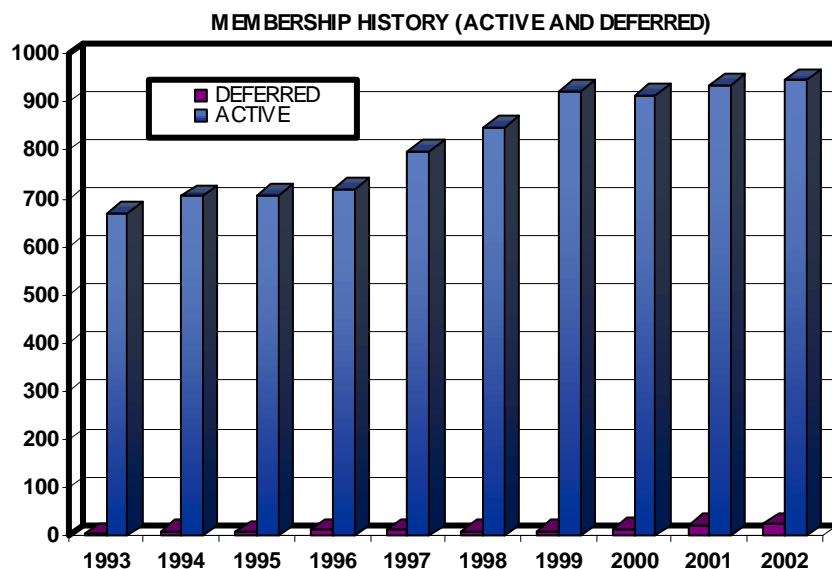
SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT JUNE 30, 2002

Type of Benefit	Number of Recipients	Option Selected			
		Unmodified	Option 1	Option 2	Option 3
Service Connected Disability	220	167	45	3	5
Non-service Connected Disability	7	7	0	0	0
Spouse Receiving Benefits from Ind Death	13	12	0	1	0
Spouse Receiving Benefits from Non-Ind Death	3	2	0	1	0
Ex-spouse Receiving Benefits from QDRO	44	41	3	0	0
Service Retirements	297	174	107	14	2
Spouses Receiving Continuances	100	77	22	0	1
Dependent under age 18	2	2	0	0	0
Total	686	482	177	19	8

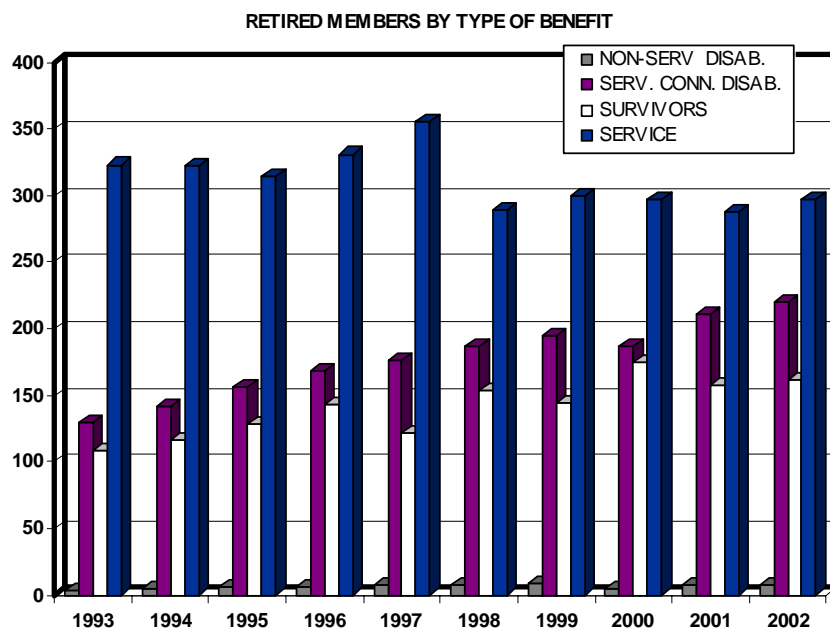
SCHEDULE OF BENEFIT EXPENSES BY TYPE JUNE 30, 2002

Type of Benefit	Total	Option Selected			
		Unmodified	Option 1	Option 2	Option 3
Service Connected Disability	\$ 7,906,405	\$ 6,094,296	\$ 1,541,534	\$ 111,992	\$ 158,583
Non-service Connected Disability	136,367	136,367	-	-	-
Spouse Receiving Benefits from Ind Death	456,755	422,213	-	34,542	-
Spouse Receiving Benefits from Non-Ind Death	49,446	38,845	-	10,601	-
Ex-spouse Receiving Benefits from QDRO	444,884	415,898	28,986	-	-
Service Retirements	12,224,118	7,092,228	4,395,834	654,309	81,747
Spouses Receiving Continuances	2,702,469	2,083,245	591,738	-	27,486
Dependent under age 18	31,979	31,979	-	-	-
Total Benefit Expense *	\$ 23,952,423	\$ 16,315,071	\$ 6,558,092	\$ 811,444	\$ 267,816

* Does not include DROP Distributions



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
DEFERRED	5	11	9	14	13	12	12	15	24	25
ACTIVE	669	705	708	720	798	849	922	914	934	946
TOTAL	674	716	717	734	811	861	934	929	958	971



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
NON-SERV. DISAB.	3	5	6	6	7	7	8	5	7	7
SERV. CONN. DISAB.	130	142	156	168	176	187	195	187	211	220
SURVIVORS	108	116	128	143	122	153	144	175	157	162
SERVICE	323	322	314	331	355	289	300	297	288	297
TOTAL	564	585	604	648	660	636	647	664	663	686



SUMMARY OF ACTIVE PARTICIPANTS

YEAR	TIER	NUMBER OF MEMBERS	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
1991	I	606	\$ 29,853,764	\$ 49,264	12.44%
	II	15	515,048	34,337	-
1992	I	633	32,871,276	51,929	5.41%
	II	28	964,142	34,434	0.28%
1993	I	618	34,990,565	56,619	9.03%
	II	51	1,563,254	30,652	-10.98%
1994	I	587	32,728,400	55,755	-1.53%
	II	118	3,794,394	32,156	4.91%
1995	I	543	32,044,589	59,014	5.84%
	II	174	6,824,513	39,221	21.97%
1996	I	490	31,216,122	63,706	7.95%
	II	230	9,406,213	40,897	4.27%
1997	I	484	29,954,247	61,889	-2.85%
	II	314	13,508,132	43,020	5.19%
1998	I	473	29,313,222	61,973	0.14%
	II	376	18,117,466	48,185	12.01%
1999	I & II	921	52,410,461	56,906	1.86%
2000	I & II	914	54,667,137	59,811	5.10%
2001	I & II	934	59,888,057	64,120	7.20%
2002	I & II	946	61,344,091	64,846	1.13%

SUMMARY OF RETIRED MEMBERSHIP

YEAR	TIER	NUMBER OF MEMBERS	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
1991	I	545	\$ 12,063,151	\$ 22,134	9.89%
	II	-	-	-	-
1992	I	547	13,044,036	23,847	7.74%
	II	-	-	-	-
1993	I	564	14,598,567	25,884	8.54%
	II	-	-	-	-
1994	I	585	15,170,531	25,933	0.19%
	II	-	-	-	-
1995	I	604	16,011,099	26,508	2.22%
	II	-	-	-	-
1996	I	648	16,685,449	25,749	-2.86%
	II	-	-	-	-
1997	I	660	18,182,008	27,548	6.99%
	II	-	-	-	-
1998	I	636	18,852,815	29,643	7.60%
	II	-	-	-	-
1999	I & II	647	21,249,926	32,844	10.80%
2000	I & II	664	25,664,076	38,651	17.68%
2001	I & II	663	28,568,480	43,090	11.48%
2002	I & II	686	31,144,834	45,401	5.36%





CONTRIBUTION RATES

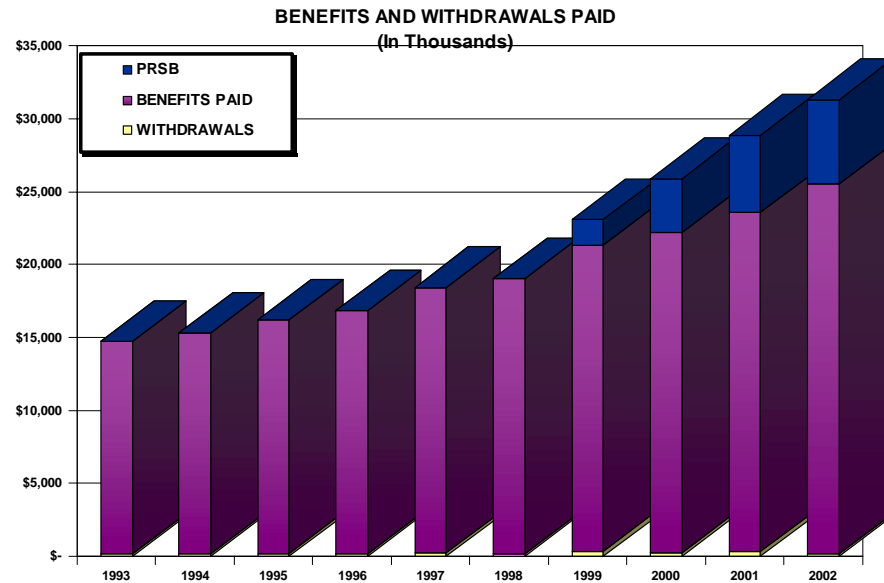
		Member Rates			City Contribution Rates		
Valuation Date	Effective	Basic at Entry Age			Total City Rate	Prefunded Actuarial Accrued Liability (PAAL)	PAAL Adjusted Contribution Rate
		20	30	40			
June 30, 2001 Tier I	7/1/2003	4.09	6.95	6.07	25.52	(25.52)	-
Tier II	7/1/2003	9.00	9.00	9.00	14.67	(14.67)	-
June 30, 2000 Tier I	7/1/2002	4.06	6.90	6.03	25.44	(25.44)	-
Tier II	7/1/2002	9.00	9.00	9.00	14.52	(14.52)	-
June 30, 1999 Tier I	7/1/2001	4.11	6.88	6.04	25.29	(25.29)	-
Tier II	7/1/2001	9.00	9.00	9.00	14.57	(14.57)	-
June 30, 1998 Tier I	7/1/2000	4.14	7.08	6.28	25.79	(25.79)	-
Tier II	7/1/2000	9.00	9.00	9.00	14.44	(14.44)	-
June 30, 1997 Tier I	7/1/1999	4.16	7.08	6.28	21.32	(21.32)	-
Tier II	7/1/1999	9.00	9.00	9.00	15.86	(15.86)	-
June 30, 1996 Tier I	7/1/1998	4.16	7.09	6.34	22.72	(22.72)	-
Tier II	7/1/1998	9.00	9.00	9.00	14.66	(0.43)	14.23
June 30, 1995 Tier I	7/1/1997	4.56	7.56	6.74	25.01	(9.34)	15.67
Tier II	7/1/1997	9.00	9.00	9.00	16.44	-	16.44
June 30, 1993 Tier I	7/1/1994	4.44	7.52	6.76	65.54	-	65.54
Tier II	7/1/1994	9.00	9.00	9.00	18.99	-	18.99
June 30, 1991 Tier I	7/1/1992	5.71	8.86	8.18	62.58	-	62.58
Tier II	7/1/1992	9.00	9.00	9.00	18.42	-	18.42
June 30, 1989 Tier I	7/1/1990	5.11	7.81	6.93	52.68	-	52.68
Tier II	7/1/1990	9.00	9.00	9.00	18.42	-	18.42
June 30, 1988	7/1/1989	5.11	7.81	6.93	50.96	-	50.96

(1) Combined rates for Group A and Group B members and retirees.

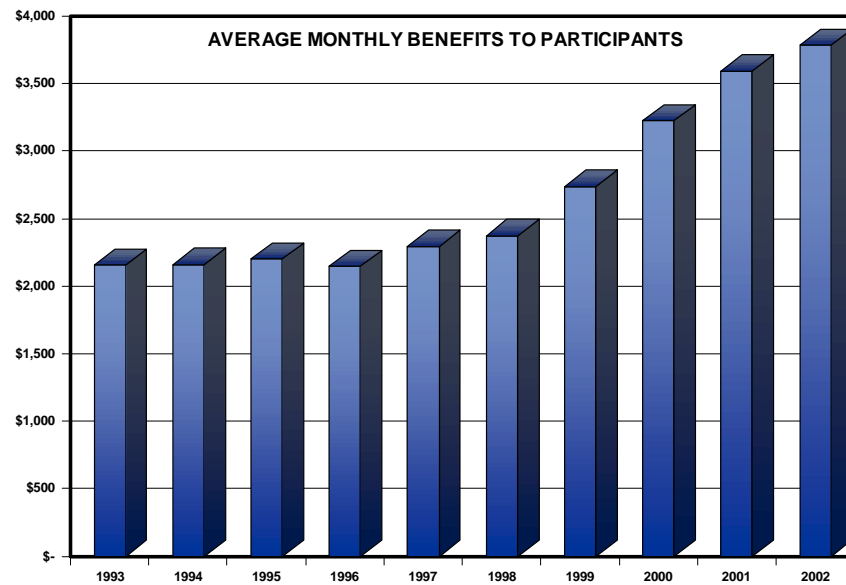


**CITY OF FRESNO
FIRE AND POLICE RETIREMENT SYSTEM
ECONOMIC ASSUMPTIONS AND FUNDING METHOD**

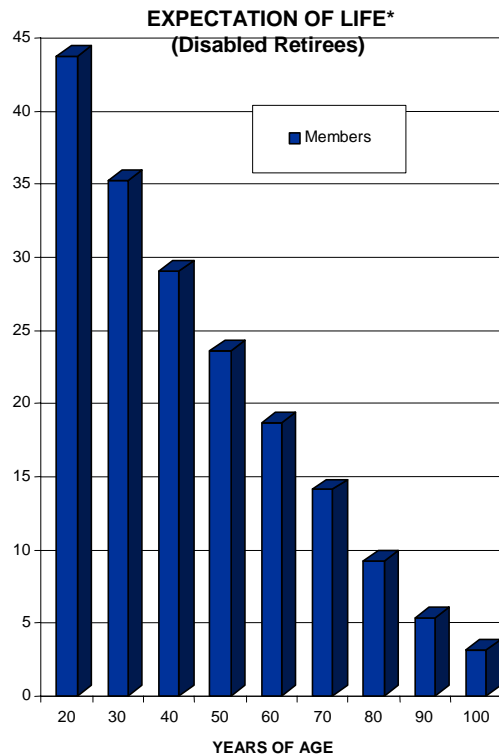
Valuation Date	Interest	Salary Scale	Cost of Living	Inflation Component	Funding Method
June 30, 2001	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2000	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 1999	8.25%	5.3% Avg.	4.9 - 6.0%	4.50%	Entry Age Normal
June 30, 1998	8.25%	10.75 - 4.95%	4.25%	4.75%	Entry Age Normal
June 30, 1997	8.25%	9.3 - 1.8%	4.75%	4.75%	Entry Age Normal
June 30, 1996	8.25%	10.75 - 4.95%	4.75%	4.75%	Entry Age Normal
June 30, 1995	8%	6.00 - .20%	5%	5%	Entry Age Normal
June 30, 1993	8%	9 - 5-1/4%	5%	5%	Entry Age Normal
June 30, 1991	8%	12 - 6-1/2%	5%	5%	Entry Age Normal
June 30, 1989	8%	12 - 6-1/2%	5%	5%	Entry Age Normal
June 30, 1987	8%	6-1/2%	6-1/2%	5%	Entry Age Normal



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
WITHDRAWALS	\$ 145	\$ 162	\$ 190	\$ 144	\$ 236	\$ 173	\$ 378	\$ 231	\$ 320	\$ 178
BENEFITS PAID	14,624	15,171	16,010	16,685	18,182	18,853	20,970	21,987	23,238	25,332
PRSB	-	-	-	-	-	-	1,740	3,677	5,330	5,813

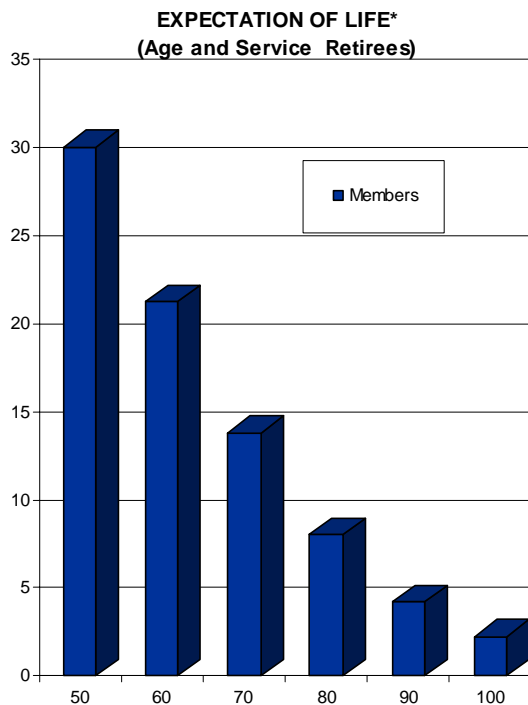


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
AVERAGE MONTHLY BENEFITS	\$ 2,156	\$ 2,161	\$ 2,202	\$ 2,146	\$ 2,293	\$ 2,371	\$ 2,737	\$ 3,221	\$ 3,591	\$ 3,783



EXPECTATION OF LIFE
Disabled Retirees
1981 Disability Table (x-5)
for General Members

Age	Members
20	43.77
30	35.23
40	29.04
50	23.62
60	18.72
70	14.11
80	9.28
90	5.35
100	3.11



EXPECTATION OF LIFE
Age and Service Retirees
1994 GAM Table

Age	Members
50	30.05
60	21.24
70	13.81
80	8.01
90	4.19
100	2.25



2002 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Independent Auditor's Internal Control Letter

	BROWN ARMSTRONG PAULDEN McCOWN HILL STARBUCK & KEETER CERTIFIED PUBLIC ACCOUNTANTS	Main Office: 4000 Madison Ave., Suite 300 Bakersfield, California 93309 Tel 661-314-4957 Fax 661-314-4957 e-mail: barmstrong@barmstrong.com Shafter Office: 560 Central Avenue Shafter, California 93282 Tel 661-746-1145 Fax 661-746-1188
<p>Peter C. Brown, CPA Barton H. Armstrong, CPA, MST Andrew J. Paulden, CPA Harvey J. McCown, CPA Andranik H. Hill, CPA Steven B. Starbuck, CPA Allene R. Keeter, CPA</p> <hr/> <p>Olivia M. Thornburgh, CPA Lynn R. Kozacek, CPA, MST Joan M. Anderson, LLC Bradley M. Hinkins, CPA Eric H. Xin, CPA Melinda A. McDevitt, CPA Thomas M. Young, CPA Amanda E. Wilson, CPA Susan Jones, CPA, MST Michelle L. Gonzalez, CPA Rebecca Thomas, LLC Wendy Yuen-Sung, CPA Rosalia Flores, CPA Bryan J. Lewis, CPA Debbie A. Rapp, CPA Julie A. Auvil, CPA</p>	<p>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</p> <p>To the Board of Retirement City of Fresno Fire and Police Retirement System Fresno, California</p> <p>We have audited the basic financial statements of the City of Fresno Fire and Police Retirement System as of and for the year ended June 30, 2002, and have issued our report thereon dated August 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.</p> <p><u>Compliance</u> As part of obtaining reasonable assurance about whether the City of Fresno Fire and Police Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.</p> <p><u>Internal Control Over Financial Reporting</u> In planning and performing our audit, we considered the City of Fresno Fire and Police Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.</p>	
<p>MEMBER of SEC Practice Section of the American Institute of Certified Public Accountants</p>		



Independent Auditor's Internal Control Letter

This report is intended for the information of the management and the Board of Retirement. However, this report is a matter of public record and its distribution is not limited once it has been approved by the Board of Retirement.

BROWN ARMSTRONG PAULDEN
McCOWN HILL STARBUCK & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
August 30, 2002